Chain Store Age

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LICENSING

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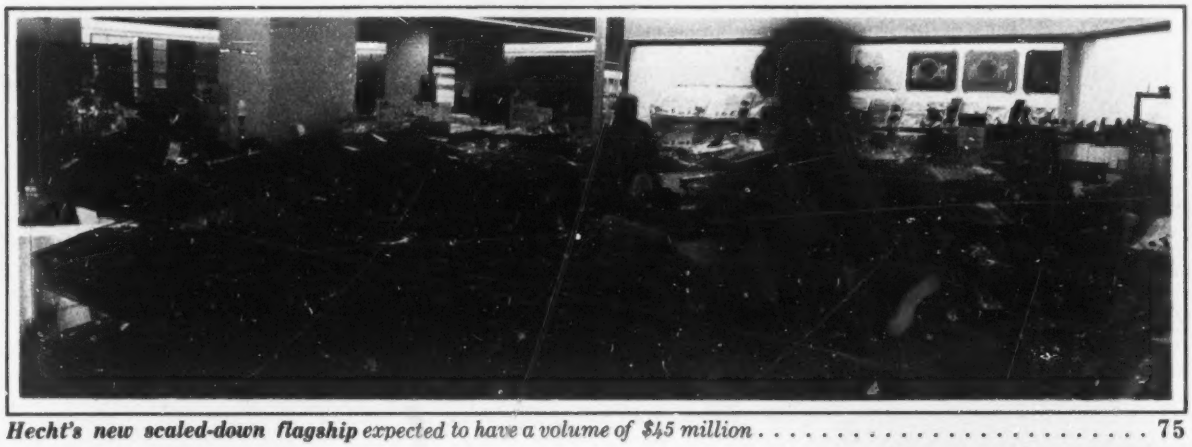

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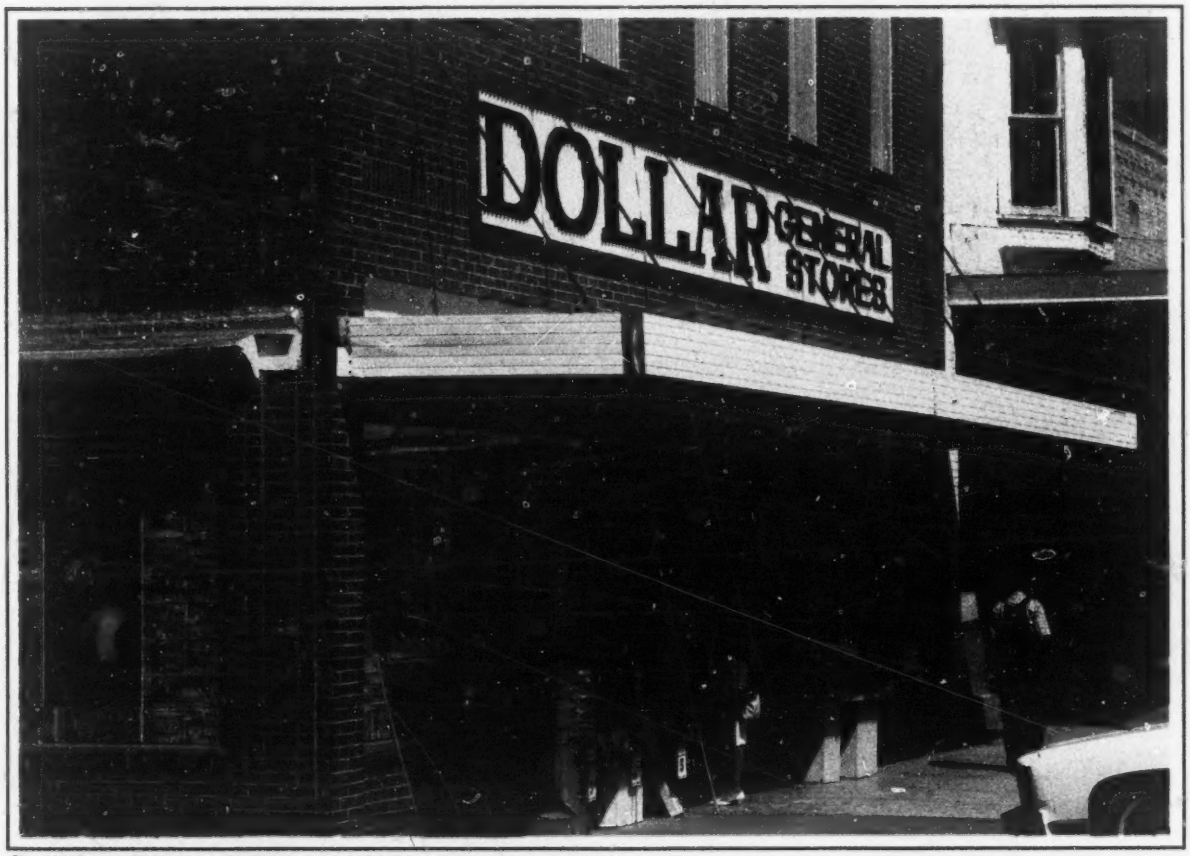
BIG CHAINS CAN'T MATCH PERFORMANCE OF REGIONALS

Bigger is not always better. A close examination of the performance of key regional chains finds them outperforming nationals in sales and growth.



***Several small regionals** have multiplied into powerhouses.*

From 1980 through 1984, their compound annual sales climbed 24.9%, 24.6% and 23%.

Their pretax earnings zoomed ahead during that period 34.4%, 18.7% and 37.9%, respectively.

And, perhaps more impressively, their sales growths relative to the markets they operate in outdistanced GAF (general merchandise, apparel and furniture) gains by, respectively, 179.8%, 192.9% and 177.1%.

They are the superstars of regional companies—Ames, Nordstrom and Dollar General.

In a retail world that is dominated by national companies and by once small regionals that have multiplied into powerhouses, Ames, Nordstrom and Dollar General demonstrate that even little kids can compete successfully with the big guys on the block.

And yet, the success of Ames and Nordstrom put them on the verge of leaving the ranks of regional companies (defined by *Chain Store Age* as those retailers with less than $1 billion in sales and operating in a limited number of states).

Both Ames and Nordstrom will pass the billion dollar mark in 1985 sales. Ames did it with its purchase of G. C. Murphy. Nordstrom accomplished the feat without the benefit of any acquisitions.

It is, nonetheless, instructive to review how regional chains have been performing. Since *CSA* last evaluated their performance three

Nordstrom is the class of regional department stores

Rank*	Chain	1984 sales (000 omitted)	% 1984 sales change	% 1984 pretax income change	Pretax income % sales	Sales per gross sq. ft.	Pretax income per gross sq. ft.	% pretax income ROA	% change compound pretax income '80-'84	% change compound sales '80-'84	% relative sales change to market '80-'84
1	Nordstrom (Seattle)	$982,668	+24.7	– 1.8	7.4	$276	$20.35	12.1	+18.7	+24.8	+192.9
2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3	Elder-Beerman (Dayton, Ohio)	311,926	+ 8.8	+ 1.2	3.5	122	4.28	6.9	+25.5	+11.2	+ 55.6
4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5	D. H. Holmes (New Orleans)	271,681	+ 7.9	–25.2	3.6	128	4.68	6.2	+ 4.8	+ 8.3	—
6	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
7	C. R. Anthony (Oklahoma City)	416,381	+ 5.2	–26.2	3.2	113	3.66	11.3	– 2.6	+ 7.2	– 14.3
8	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

*Ranking based on all ratios except 1984 sales.
Source: *CSA* research, annual reports, U.S. Commerce Dept.

years ago, the roster of publicly held companies has markedly changed. Woodward & Lothrop and Higbee's have been acquired and gone private. Caldor is now part of Associated Dry Goods. Hills, Duckwall-ALCO, Lamston's and Cornet Stores of Pasadena, Calif., have gone private. Grand Central sold out to Fred Meyer.

Moreover, since 1980 the list of regionals that have either folded or been absorbed by others include FedMart, Two Guys, United Dept. Stores, Kuhn's, Twin Fair, City Stores, King's and Halle's.

Before, regional retailers had to worry about the K mart onslaught, or the effect of regional shopping center development that brought Sears, Penney and Montgomery Ward and a bevy of city-based department stores into the suburbs and beyond.

Now, they are challenged by much more aggressive supra-regionals such as Bradlees, Caldor, Target and Wal-Mart, companies whose tentacles have branched out.

A look at the record demonstrates the potency of the supra-regionals. Since 1980, Sears has managed to post a 6.5% compound sales gain; K mart's discount stores, +9%; Penney, a disappointing 4.3% compound growth.

Compare that to Bradlees' +16.3%, Caldor's +17.1%, Target's +23.4% and Wal-Mart's phenomenal +40.5%.

Even more revealing is their performance relative to the GAF sales growth in the country and by region. The measurement provides a truer definition of a company's salespower. It's a simple but eye opening comparative exercise—a retailer that increases sales 10% in a region where GAF sales moved ahead by 5% is better than a merchant who recorded a similar 10% gain in a region where GAF sales increased 15%.

In New England, according to the U.S. Dept. of Commerce, GAF sales had a 1980-84 compound growth rate of 11%; Mid-Atlantic states, +8.2%; South Atlantic states, +9.9%; East North Central states, +6.4%, East South Central states, +9.1%; West North Central states, +7.5%; West South Central states, +8.3%; Mountain states, +9.8%; and Pacific states, +7.9%.

Nationally, GAF sales had a compound growth of 8.4%. Thus Sears' 6.5% sales gain really means that Sears had a –22.6% sales pattern. K mart's relative sales gain was 7.1%, but Penney's was a disastrous –48.8%.

Meanwhile, relative to GAF sales in their respective regions, Bradlees' sales did better by +75.3%, Caldor's +92.1%, Target's +203.9% and Wal-Mart's +355.1%.

But those super numbers pertain to the supra-regionals. What about the still truly regional companies? How are they faring?

It's a good news-bad news answer. Three of the 19 companies *CSA* analyzed (Danner's, Heck's and Wieboldt's) had no pretax earnings in 1984. Two more (Sprouse Reitz and C. R. Anthony) had lower pretax earnings in 1984 than in 1980.

C. R. Anthony, more than any other chain, shows how sharply fortunes can turn. Back in 1983, C. R. Anthony finished No. 1 in *CSA*'s rankings of nine regional department stores. This time, the Oklahoma City-based junior department store chain dropped to seventh out of eight companies studied.

(The rankings cover nine criteria: percentage changes in sales and pretax earnings 1984/83, pretax earnings to sales percentage, sales and pretax earnings per gross square feet, pretax earnings return on assets, per cent changes in compound sales and pretax earnings 1980-84, and the relative compound sales growth vs. GAF sales in the respective markets.

Overall sales volume was not included in the evaluation. For each criterion, a point score was given, with a "1" being the best score. The chain with the lowest total for all the financial yardsticks earned top honors.)

While C. R. Anthony suffered in the rankings, primarily because of lower fourth quarter sales and profits in 1984, the chain retained a strong foundation on which to re-

Ames moves up to top billing among regional discount stores

Rank*	Chain	1984 sales (000 omitted)	% 1984 sales change	% 1984 pretax income change	Pretax income % sales	Sales per gross sq. ft.	Pretax income per gross sq. ft.	% pretax income ROA	% change compound pretax income '80-'84	% change compound sales '80-'84	% relative sales change to market '80-'84
1	Ames (Rocky Hill, Conn.)	$821,995	+27.0	+48.4	6.1	$ 95	$5.81	15.5	+ 34.4	+24.9	+179.8
2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3	Jamesway (Secaucus, N.J.)	475,406	+14.1	+17.0	5.2	100	5.21	13.8	+ 38.6	+14.9	+ 81.7
4	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
5	Duckwall-ALCO (Abilene, Kan.)	363,874	+14.8	−54.3	2.0	81	1.65	5.3	+ 6.9	+20.2	+137.6
6	S. E. Nichols (New York)	275,547	+ 3.7	− 5.7	4.3	93	3.89	9.8	+100.6	+ 7.0	− 23.1
7	Danners (Indianapolis)	189,022	+13.8	—	0.2	87	—	0.6	—	+12.4	+ 93.8
8	Rack'n (Charleston, W. Va.)	484,734	+ 6.8	—	—	86	—	—	—	+12.2	+ 48.8

*Ranking based on all ratios except 1984 sales.
Source: CSA research, annual reports, U.S. Commerce Dept.

build. Even with a 26.2% drop in pretax earnings it sustained an 11.3% pretax income return on assets, second best of any regional department store.

Moreover, it has aggressively marketed itself with such programs as Anthony's Allegiance Club, a frequent flyer type promotion that enlisted more than 120,000 members during its first six months.

Even as C. R. Anthony tumbled from first to seventh in the department store field, Rocky Hill, Conn.-based Ames catapulted itself from seventh to first in the discount store arena. Known as the Wal-Mart of the Northeast with its concentration in small towns, Ames doubled Bradlees' and Caldor's relative sales growth in their markets.

Though some may point to Ames' pickup of 42 former Kings stores as a key reason for the big sales hike, they would be overlooking a 16% same store sales increase in 1984 that followed a 14% same store sales gain the year before.

The success Ames enjoyed in small markets was not shared by all of its discount brethren. S. E. Nichols, with a small store strategy in many of the same eastern states as Ames, had a −23.1% sales pattern relative to its markets.

Lower relative sales growth showed up in department store ranks, too. In one of the hottest retail markets of all, the Washington, D.C. metro, Woodward & Lothrop slipped 0.1%. In New York, B. Altman dropped a more ominous 39%. In farm-economy plagued Iowa, Younkers suffered a 26.7% reduction relative to the overall region's growth.

***Department stores** showed lowest relative sales growth.*

Among public regional department stores, Wieboldt's in Chicago, Sage-Allen in Hartford and Salt Lake City's ZCMI fell miserably short of their respective regions' growths. New Orleans' D. H. Holmes could manage only a break even with its area's 8.3% gain.

Out west, the Pacific Coast and Mountain states came through the 1980-84 period with an 8.4% compound sales gain, equal to the national average. Someone forgot to tell Nordstrom what it means to be average.

The Seattle-based specialty store retailer churned out a 24.6% compound sales gain that equated to a +192.9% growth relative to market.

Nordstrom by far and away was the premier department store company, with an unbelievable $276 in sales per gross square foot ($100 higher than Macy's) and an even more incomprehensible $20.35 in pretax profits per gross sq. ft. ($5 above Macy's). The latter number is more impressive when one realizes that it reflects a down year in 1984

Dollar General edges out Family Dollar in regional variety store competition

Rank*	Chain	1984 sales (000 omitted)	% 1984 sales change	% 1984 pretax income change	Pretax income % sales	Sales per gross sq. ft.	Pretax income per gross sq. ft.	% pretax income ROA	% change compound pretax income '80-'84	% change compound sales '80-'84	% relative sales change to market '80-'84
1	Dollar General (Scottsville, Ky.)	$488,514	+38.6	+34.8	8.3	$79	$6.61	23.0	+37.9	+23.8	+177.1
2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
3	Sprouse Reitz (Portland, Ore.)	182,666	+14.8	+10.9	5.2	46	2.38	12.5	− 1.9	+ 6.2	− 26.2

*Ranking based on all ratios except 1984 sales.
Source: CSA research, annual reports, U.S. Commerce Dept.

when Nordstrom's pretax profits declined 1.8%.

Nordstrom has succeeded by aggressively seeking out business where competition already has been keen. Since 1980 it has opened five units in heavily department-stored Southern California and three in Utah where ZCMI had dominated.

Unlike Nordstrom, Hess's has sought to be a big fish in a little pond. Its midsize-markets approach has given it an enviable position. While it lagged in sales per gross square foot at $99, it had a respectable pretax income per square foot of $5.56, and a compound growth in pretax income of $42.5, tops in the department store field. By comparison, Mercantile had a 19.4% compound growth, Macy's +12.4%.

But perhaps the two best practitioners of small town USA retailing are Dollar General and Family Dollar. In the closest contest by retail tier, Dollar General edged out Family Dollar, a reversal of form from three years ago.

Even with a second place finish, Family Dollar distinguished itself with pretax earnings of $9.71 per gross square foot (second only to Nordstrom among the 19 chains analyzed) and a pretax earnings return on assets of 29.3%.

In winning the variety store competition, Dollar General accomplished another notable feat—head to head against Nordstrom and Ames, Dollar General emerged as the No. 1 regional retailer.

Dollar General had the best scores for percentage sales gain year to year, pretax income as a per cent of sales, pretax income return on assets and per cent compound growth pretax income.

A company that places a high value on low rentals (2.86% of sales in 1984), Dollar General showed its commitment to fast utilization of assets with its acquisition in 1983 of 280 P. N. Hirsch stores spread over 11 states. □

The nation's 700 chain-operated closeout stores had combined sales of more than $1 billion last year. Closeout retailing may eventually eclipse off-price apparel.

Closeout stores enter mainstream

Quite a few general merchandisers are comfortable with the prospect of selling low-priced socket wrench sets. But in pink plastic cases? Forget it.

Only a closeout merchant can turn that sort of apparent disadvantage to his favor. Howard Snyder merchandised the 40-piece pink-boxed sockets in the cosmetics department and called them lady's wrenches. He claims all 2,400 sets sold for $2.99 each in two days at his midtown Manhattan Odd Job stores.

Such marketing coups have helped double the number of closeout stores in America in just two years. The nation's 700 or so chain-operated closeout stores had combined sales of more than $1 billion last year, according to Fred E. Wintzer, an analyst for Alex. Brown & Sons.

The category remains far from overstored, however. Wintzer says the closeout business eventually may eclipse the off-price apparel industry, now estimated at $10 billion a year. He notes that off-pricers tend to carry department store assortments while closeout stores compete with every type of store, from Dollar General to Bloomingdale's.

Growth rates of the top closeout chains vary as much as the merchandise. An industry leader, the California-based Pic 'n' Save, with 94 stores and more than $230 million in annual sales, is growing by just four to nine stores a year, says Bill Thomas, executive vice president. Consolidated Stores, headquartered in Columbus, Ohio, has opened all 115 of its stores since 1982, prodigious growth for a company that previously specialized in wholesale closeouts. Sears Surplus Stores also has more than 100 outlets, but few new stores are planned.

With the industry's phenomenal growth has come a new, more mainstream closeout merchant, more likely to have reached the top by way of the executive offices of well-known retailers than from an obscure warehouse, as in the old days.

Joseph J. Collins, for example, re-

cently appointed president of Job Lot Trading Co., comes from a traditional retailing background, having held executive positions with Carter Hawley Hale, Fed Mart and Jefferson Ward.

Last April, Peter J. Laitmon assumed the presidency of Tangible Industries, bringing experience in media, advertising, premiums and barter. He hopes to use that diverse background to bring together creative deals for moving distressed goods.

Despite the burgeoning ranks of closeout executives who have crossed over from traditional retailing, many of the merchants guiding the closeout industry came from the mom and pop tradition. The old guard often prefers to go with gut feelings rather than consult a spread sheet.

Odd Job's Snyder, despite his college degree, is from the old school of closeout entrepreneurs whose strong personalities drive their businesses. He tells depression-era tales of hiring schoolmates to roll tobacco from butts into "new" cigarettes he peddled to his Brooklyn neighbors.

The example may be extreme, but spirit like Snyder's is of undeniable importance in acquiring the right goods from among the 6% to 8% of all merchandise that fails to make it through traditional distribution channels. "Buying is the key," says John Gableman, controller at Consolidated Stores, with outlets known as Odd Lots, Big Lots and Big and Small Lots. (Not to be confused with Job Lot, Odd Lot or Odd Job.)

Wintzer of Alex. Brown agrees closeout merchandise may be hard to find but says the goods are always out there somewhere. During recessions, manufacturers sell excess inventory to raise cash. In boom times, companies overproduce or try new products, some of them bound to fail.

Closeout chains often stock some merchandise that is not really closeout, just deep discount. Such goods provide continuity and sometimes—as with food—breed repeat customer visits. Pic 'n' Save carries more than 85% closeouts, Consolidated has about 90% and Odd Job claims 100%.

Mainstream retailers are also grabbing a chunk of the available block of closeout merchandise, closeout wholesalers say. "A lot of your straight-line stores are buying closeouts to promote," says Shelly Liss, president of the Philadelphia-based Liss Brothers Inc. Reuben Dessler, president of Mazel Co. in Cleveland, agrees. "The finest names in retail chains are into closeouts," Dessler says.

Just how much closeout merchandise is reaching the shelves of traditional retailers is difficult to determine, but one closeout wholesaler says regular retailers are his biggest clients.

***Closeout chains** still often buy on "gut" feelings.*

Closeout sales by category	
Product	**Share**
Housewares	24%
Consumer Electronics	18
Toys	15
Sporting Goods	16
Domestics	11
Hardware and Auto Accessories	10
Health and Beauty Aids	5
Source: Alex. Brown & Sons Inc.	

That could leave some closeout specialists wondering about the sources of their goods. And when the competition is tough, the old-line closeout chains, those with just a few people responsible for the buying, seem to compete effectively for the available goods.

In fact, trouble can begin when the strong personalities leave. Without Odd Lot's founders, the company has turned in a poor showing. When Laitmon took over Odd Lot's wholesale branch, Tangible Industries, he inherited a troubled portion of the 152-store chain.

Laitmon intends to reverse his company's fortunes by campaigning for good relations with vendors. "The toughest part is convincing the manufacturers we're for real," he says.

In keeping with the new tradition of mainstream corporate culture in closeouts, Laitmon tells manufacturers: "I don't want to be the last resort. Make me a partner. I want to be like your lawyer, your accoun-

tant. That's the future of closeouts. We're there for continuity."

Size can be an advantage in the business. "Being big enough to buy an entire lot of closeout goods eliminates competition," says Liss of Liss Brothers. Gableman says, "The larger we are becoming, the more goods are presented to us."

Small can work, too, as evidenced by Snyder and his partners at Odd Job. Snyder, whose company has seven stores and plans to expand, puts it this way: "I think that I can go up to 50 [stores] and fill them with merchandise."

Snyder prides himself on brand names and goods worthy of department stores. Experience and intuition help him choose merchandise. "In your buying, you have to go back in time and say, 'Did I have an item similar to this? Did it sell?'" He recently scored with a G.I. Joe vehicle for $40 that had reminded him of a previous success—another ride-on toy with a rechargeable battery.

"Ninety per cent of the merchandise is there because of talks and contacts I've made at trade shows," Snyder says. In addition, his company mails 150,000 letters annually to vendors, keying most of the correspondence to trade shows.

On a tour of one of the Manhattan Odd Jobs, Snyder picks up a jar of lemon-flavored Tang, a product that failed in test markets and will not become a permanent offering. The green lid and labels could not have helped. With instructions in both English and what appears to be a Middle Eastern language, the green-tinged drink powder is selling for $1.39, down from the original price of $2.99.

Licensed products past their prime also find an outlet there, Snyder says, pointing to Ziggy. In the toy department, hot licenses that have cooled are often bought as gifts by childless aunts and uncles who have fallen behind the times, at least as far as toys are concerned, Snyder says.

Odd Job features new merchandise near the door and later moves the goods back into the appropriate departments. A chalkboard near the entrance alerts shoppers to bargains expected on the floor soon.

Some people come to treasure hunt repeatedly if the merchandise changes fast enough. "The customer gets hooked on it," says Mazel's Dessler. "He comes in three or four times a week to see what's new." □

Many retailers have still not effectively integrated merchandising and distribution. The two are often at odds.

The same company, different goals

One of the most talked-about merchandising experiments in recent years was made possible in part by something as unglamorous as refinements in the distribution process.

In June, Sears began testing brand name goods in consumer electronics. Although it already owned a large chunk of the television market, Sears wanted to show the customer who might never consider a private label TV how well its own models stacked up against the competition.

But Sears had a major problem—cutthroat competition from electronics superstores, who were already selling brand name CE products on the slimmest margins, and discounters, who had upscaled to brands on similarly trim profits. How could Sears, with its choice but expensive regional mall locations, compete?

Part of the answer lay in more efficient distribution. For several years, Sears strove to get more timely and accurate movement of merchandise throughout its regions. One result of that better flow of goods was that Sears achieved more rapid delivery to its stores, which allowed it to cut warehouse inventory on televisions by about half. The accompanying reduction in inventory costs meant Sears could accept a lower gross margin on the classification and become competitive with price-oriented specialists.

A stronger link: Despite the obvious links between merchandising and distribution, many general merchandise chains have still not effectively integrated the two. As a result, the kinds of dramatic merchandising changes facilitated by improved distribution—as demonstrated by the Sears example—do not happen that often.

Too many sales exhaust a chain's distribution system.

But attitudes in retailing are beginning to change as merchants strive to better understand how a buyer's decisions influence costs and how improvements in distribution affect merchandising. Some retailers are training buyers to take better advantage of the benefits of improved distribution. And more merchandisers are being brought into the process of planning new distribution facilities.

Old habits do not die easily, however, and some industry observers say that in most cases distribution and merchandising are still at odds with one another.

UPSCALING AND BRANDS BEGIN TO PAY OFF

Discounters picked up market share in 1985, but there are doubts they can hold on to long-term gains. Audiovideo specialists lost market share.

The wave of upscaling, broader assortments, better presentations and the addition of more nationally advertised brands is beginning to pay off for discounters. Amid the fanfare which accompanied the opening of one electronics superstore after another in 1985, an important fact got lost in the hoopla. Audiovideo specialists—which include both superstores and smaller independents—lost market share.

Discount stores are the primary beneficiary, but there are questions as to whether or not discounters can hold onto their new found strength in the long term competitive environment.

For 9 out of 12 key home electronics products, *Chain Store Age*/ Leo J. Shapiro & Associates research shows that proportionately fewer customers picked the specialists as the place to buy in 1985 than they did the year before. In contrast, discount stores recorded market share increases in 9 of the same 12 categories measured.

Coming on the heels of record year-end sales figures for the major electronics superstore chains, the research conclusions, at first glance, look out of line with actual performance. For example, *CSA* estimates that the specialists sold 63 million units of blank videotape in 1985, compared to 55 million units the year before, for an increase of 15%. However, from 1984 to 1985 the entire market for blank videotape grew by 40%.

On the whole, the study shows that as a group the electronics specialists are underperforming industry sales averages, while discounters are outperforming the industry norm.

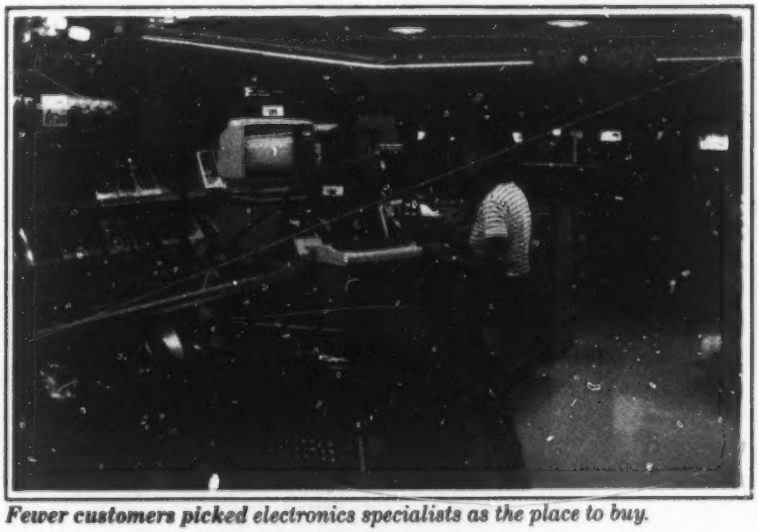
Already, discount stores record more than twice as many unit sales in telephones than do their specialty outlet competitors. In blank videotape, portable headphone stereo and boom boxes, discounters' share of the market now nearly equals the market share held by specialists.

The only electronics categories where a-v specialists maintain a commanding lead are televisions and video cassette recorders where they garner 44.8% and 35.4% shares, respectively.

While no single factor fully explains the discounters' growth, near the top of the list must be the addition of more—and more prestigious—national brands to their merchandise mix.

Until recently, discount stores have been unable to fully utilize their "national brands at low price" strategy to its fullest potential in home electronics because some vendors purposefully shunned the discount distribution channel.

The most notable of the holdouts was Sony, but even the biggest of the stragglers has had second thoughts about discount distribution in the last two years, and the effects have been dramatic.



Fewer customers picked electronics specialists as the place to buy.

Preliminary research indicates that as many as 15% of consumers who say they expect to buy a Sony product in 1986 also report that they expect to buy it at a discount store. And customer expectations about buying national brands at discount stores is not limited only to Sony.

Again, preliminary research shows that as many as 20% of those who intend to buy a Pioneer product and 22% of consumers who expect to buy Panasonic say they will make their purchase from a discounter this year.

No superstore demise: Those expecting the much publicized superstores to go belly up as the result of discounting's success, however, would be sadly misled. Paradoxically, it is aggressive—and success-

A-V specialists losing market share to discounters

Where did you buy your last . . .	Sears, Penney, Ward		Discount stores		Department stores		Catalog showrooms		A-V specialists	
	'84	'85	'84	'85	'84	'85	'84	'85	'84	'85
VCR	12.7%	15.6%	18.0%	14.2%	14.0%	8.7%	2.0%	2.1%	38.0%	36.4%
Telephone	7.7	11.3	17.4	20.5	7.2	7.5	5.0	4.5	7.5	7.7
Computer software	14.6	11.3	21.2	14.4	3.4	5.2	3.4	5.7	38.6	18.6
Blank video tape	3.5	5.6	33.5	33.6	3.1	5.6	3.1	4.5	41.1	34.4
Telephone answerer	19.3	8.6	11.4	16.7	5.7	11.4	15.9	1.4	14.8	28.7
Car stereo	7.2	6.3	9.2	11.1	2.8	5.6	1.6	NR	49.2	26.8
CD player	12.1	12.2	6.1	7.3	12.1	14.6	8.1	2.4	45.4	25.3
Home computer	15.5	12.0	16.5	18.7	7.4	6.7	5.5	1.3	29.4	13.3
Headphone stereo	19.5	13.6	17.2	23.2	7.1	7.4	18.6	12.3	30.8	27.0
Stereo	20.8	15.4	3.9	15.4	9.9	7.7	2.0	2.2	53.4	46.4
Boom box	19.7	12.0	24.4	22.9	9.4	12.0	6.6	6.2	45.4	25.3
Television	21.0	18.6	17.1	14.8	6.8	10.5	1.1	3.4	30.1	44.8

Source: *Chain Store Age*/Leo J. Shapiro & Associates — NR = No response

ful—superstores themselves which are causing the drop in market share for a-v specialists as a group.

When superstores move into a market, it is smaller, independent specialty retailers who become their prime victims. Better positioned discounters, along with superstores, are picking up debris.

"It's coming out of the hide of mom and pop-type operators, from whomever cannot offer breadth of merchandise, service and pricing," says St. Petersburg, Fla.-based Raymond, James analyst Richard Lilly.

As evidence, Lilly cites superstore Circuit City's "awesome" first year's performance in the $350 million Atlanta home electronics market, where he estimates that with only four stores totaling only 114,000 sq. ft., Circuit City has grabbed $48 million in sales.

One of the results of Circuit City's entry into Atlanta, according to Lilly, was the demise of $2 million independent Back Door Stereo, which shuttered its doors shortly before Christmas. Other independents are also suffering, he says.

Short term opportunity: As superstores continue expanding, the short term result of their increased market share will be increased pressure on their smaller, independent rivals, much like the Atlanta experience. If the number of independents declines, it will present a continuing short-term opportunity for discounters to pick up some of the independents' lost market share.

In the long term, the effect of superstores will present competitive problems for discounters, and, in fact, for all general merchandisers selling consumer electronics.

Sears Business Systems Centers national manager John Rollins speaking in another context, summed up the problem: "In a shakeout, one is rarely left with weaker competition at the end of the shakeout than at the beginning." □

K mart, three years later: It's working

Three years ago, when K mart unveiled its consumer electronics department prototypes at its stores in Troy and Rochester, Mich., most observers were impressed with the discounter's efforts to upscale. However, many remained skeptical as to whether or not K mart could really shed its blue light special image and, as then senior buyer Fred Shimp said, "develop an organization to sell products of the computer age."

Fred Shimp took early retirement a year ago, but K mart has managed to make its program work—despite some major drawbacks. According to *Chain Store Age*/Leo J. Shapiro & Associates research, K mart has grown its market share for 11 of 12 key home electronics products. The sole exception is computer software, where the market has gone to the specialty computer stores.

K mart's growing market share

Where did you buy your last . . .	1984	1985
VCR	0.7%	1.7%
Telephone	4.8	5.8
Computer software	12.4	7.2
Blank video tape	5.4	6.6
Telephone answerer	NR	2.9
Car stereo	2.8	4.8
CD player	NR	NR
Home computer	5.5	6.5
Headphone stereo	1.9	0.3
Stereo	2.0	3.3
Boom box	6.7	7.9
Television	2.8	6.5

NR = No response
Source: *Chain Store Age*/Leo J. Shapiro & Associates

K mart continues to do best in mature product categories, such as portable audio, or in commodity items, such as blank videotape. It has yet to create a presence in either video cassette recorders or compact disc players. Yet, the discounter is carving out market share increases nearly across the board.

Unlike other discounters, K mart actually grew its share of the television market in 1985, rising from 2.8% in 1984 to 6.5% last year. In stereos, however, it continues to suffer from its late addition of rack systems to the mix. Its increase from 2% in 1984 to 3.3% last year, though a healthy gain, is well below the performance recorded by the rest of the discount field.

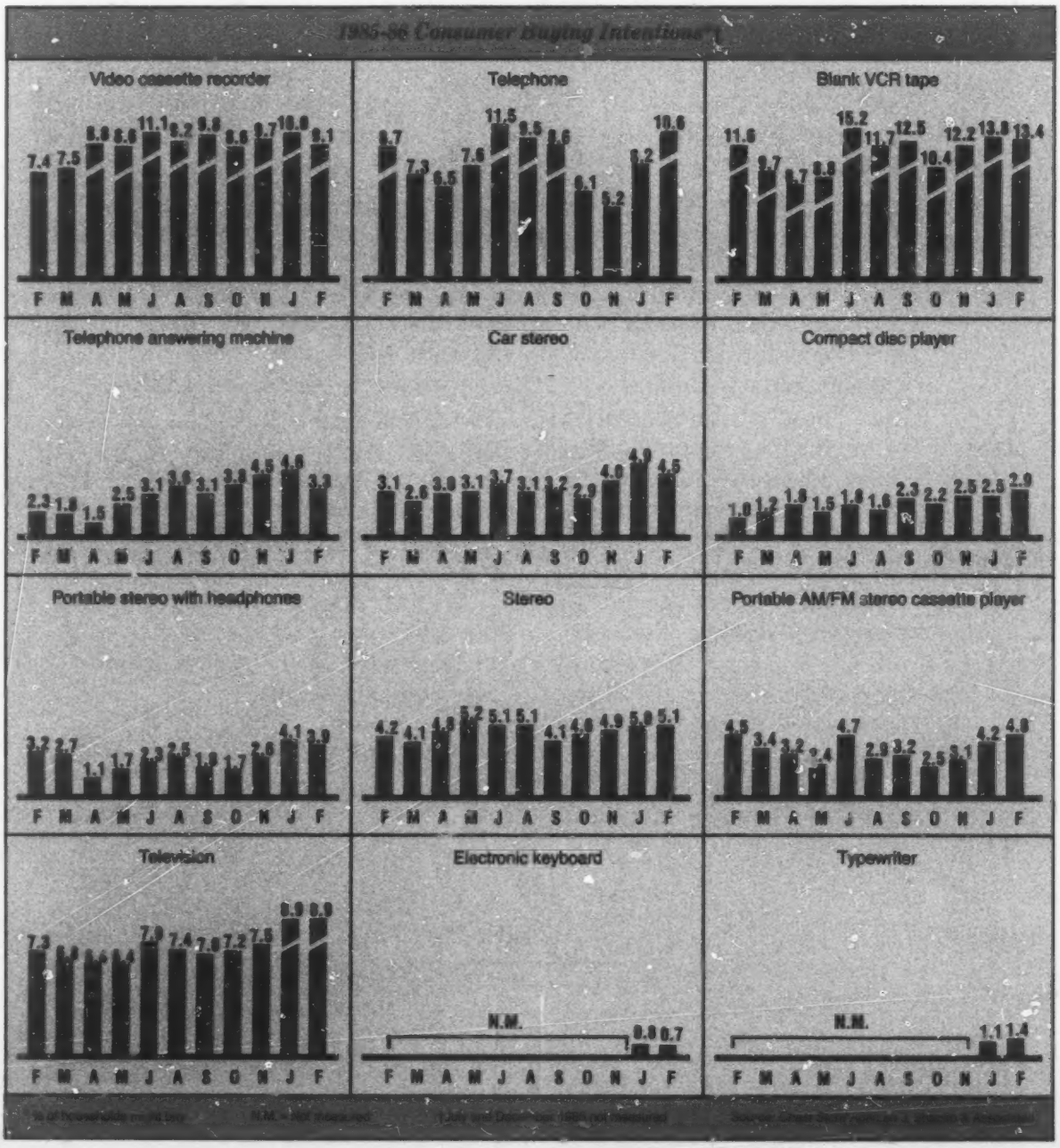
Traffic dim, but TV picture bright

Judging the potential size of the television market in 1986 simply from January store traffic may lead some to underestimate seriously the true level of consumer interest. According to the latest MarkeTrends survey, the number of households actively shopping for a TV in the last 30 days was about equal to the amount shopping in last year's study.

Consumer intent to buy a television this year, however, is running significantly higher than 1985's totals. According to the recent poll, 8.9% of households surveyed report they expect to buy a TV in 1986.

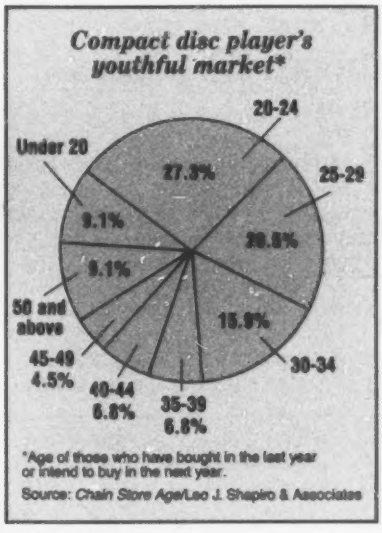
For compact disc players, though, January traffic will be a good indicator of the year's sales gains—if sources can keep manufacturing capacity up to the high levels of consumer demand. The number of households actively shopping for a CD player last month was three times higher than last year's poll.

Comparing January totals for VCRs to the same month's figures in 1985 should also be a good predictor for the coming year's performance, according to MarkeTrends. Exactly the same number of households (3.8%) was in the active market in both surveys. □



CD players excite record interest levels

Consumers are recording high levels of interest in CD players.



When the Compact Disc Group shuttered its doors at the end of December, the trade organization founded to promote CDs and players in their infancy had accomplished its original task—perhaps too well.

Consumers in the February MarkeTrends poll are recording such high levels of interest in buying CD players that a shortage now seems certain. In the most recent survey 2.9% of households polled report that they intend to buy a compact disc player in 1986.

If every potential buyer in the survey were to buy a CD player in the coming year, the poll's results would translate into sales of 2.4 million units. Since consumers in the MarkeTrends survey traditionally underestimate their actual buying plans, *CSA* estimates the true potential at approximately 4.9 million units.

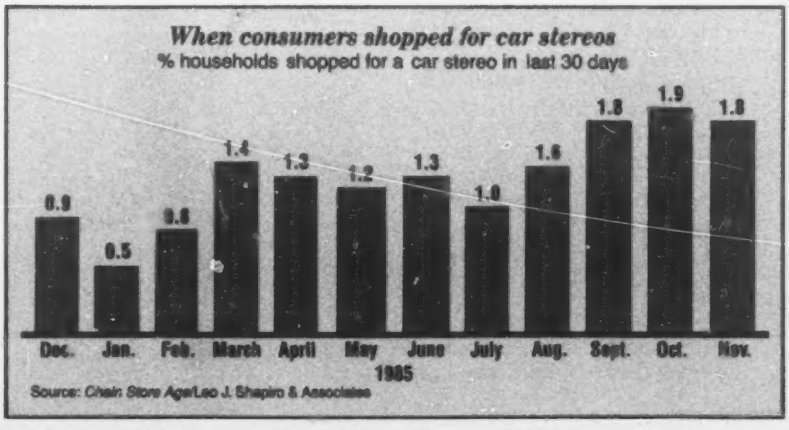
Young, well-heeled customers are driving the market, according to the poll. Over half (56.9%) of those who either already own a CD player or who plan to buy one in the next year are under 30 years old. Almost 2 out of 5 are under 25 years old.

In addition, household income is well above the norm. Of those who already have a CD player or who expect to buy, 38.1%, report incomes in excess of $40,000. Nearly 3 in 5 (57.1%) say their annual income is over $30,000. □

Auto sound sales peak in October

Did low auto loan interest rates offered by American car makers boost sales for auto sound equipment last summer? According to MarkeTrends research, increased consumer interest in car stereos was a byproduct of the promotional auto loans.

Traditionally, consumer shopping patterns for auto sound peak in December and June and slacken in the deep winter months. Last year, according to MarkeTrends, car stereo customers were following their historic pattern right through July.



Then came August and the automaker's heavily advertised car loans. Suddenly, the number of households in the active market shot up 60%, reaching a high of 2% in October—nearly double the number recorded only three months ago.

Aftermarket retailers, though, did not see increased shopping at similar dramatic levels, since MarkeTrends measures both factory installations and aftermarket sales. Consumer interest in auto sound, however, continues at the highest level in years, and aftermarket retailers are reaping some of the benefits.

Those who bought a car stereo in the last year report buying at audio-video specialists with the greatest frequency (35.7% of units sold). Following are auto sound specialists (11.1%), discount stores (11.1%), the Big 3 mass merchants (6.3%) and department stores (5.6%). □

Promotions help grill sales sizzle

Discounters and catalogers are promoting barbecue grills harder than ever, despite recent price footballing. It must be paying off, as discounters control 28% of the business.

Despite the recent footballing of barbecue grill prices, a recent *Chain Store Age* survey of discount and catalog store buyers finds retailers pleased with the business.

In fact, a survey of over 60 top discounters and catalogers representing over 7,000 units finds they are promoting harder than ever to keep their share of the business. They are also moving toward grills with features and more grill accessories as a way to bolster margins.

Discounters currently control 28% of the $450 million grill business, followed by department stores with 25% and catalogers and home centers with 10% each.

Perhaps the most formidable competition emerging is the wholesale club. One Chicago area wholesale operation recently featured the Weber-Stephen One Touch Charcoal grill at $46, below the wholesale price of $52.

Undaunted by this new threat, discount and catalog retailers say they are maintaining margins. Almost 56% say they have kept margins in the 20% to 30% range. Additionally, they keep markdowns to only 10% to 20% when grills are promoted.

Grills are on sale frequently. Most buyers say they rollback prices six times a year. The key months, according to the survey, are June, when 22% of sales are generated, May with 20% of sales and July with 14%.

Accessories hot: Although most retailers say they carry grills as both a traffic lure and a margin producer, grill parts and accessories yield the most attractive margins. Seventy-seven per cent of buyers indicate they sell these items, which carry margins in the 35% to 45% range, in order to offset lower grill profits. The most popular lines of accessories include Certified with 77.8% share, Sunbeam with 11.8%, Structo with 11.8% and Outdoor Chef with 5.9%.

Just because retailers are pushing accessories does not signal maturation for grills themselves. Gas grills are the new driving force behind the classification and it is estimated only 15% of the population own gas grills. With that in mind, retailers are paring back charcoal and electric grills.

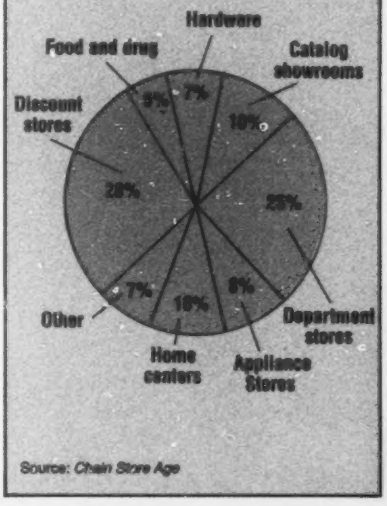
A significant 38.9% expect gas grills to grow at a 20% to 30% sales clip next year. The acceptance of gas grills has allowed discounters to dabble in higher price points. K mart upped its ceiling to $250, for example. Opening price points still hover at $99, and 37% of the *CSA* survey pegged the best price points as those in the $150 to $200 range.

Retailers should add even more grills with features this year. The favorites include sideboards, additional grilling levels, new colors such as graphite and earth tones, and fluidless chimney starters.

Who is hot? Sunbeam received the highest overall rating, followed by Structo, Weber and Meco, when judged on delivery, product quality, consumer acceptance, retailer profit, consumer and manufacturers support and co-op advertising.

Sunbeam was perceived as very strong in delivery, quality and support, but faltered some in retailer profit and co-op advertising. Structo was viewed as good in delivery, product quality and consumer and manufacturer support, but low in consumer acceptance and profit. Weber made the grade as far as quality, delivery and consumer acceptance. □

Where barbecue grills are sold

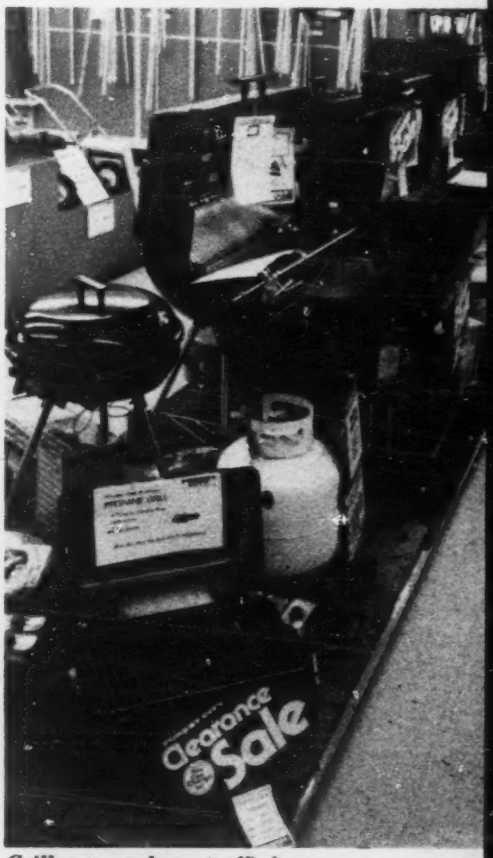


Source: *Chain Store Age*

Potential sales increase in 1986?

	Charcoal	Gas	Electric
0%	38.9%	5.6%	71.4%
1%-10%	50.0%	55.6%	14.3%
20%-30%	11.1%	38.9%	14.3%

Source: *Chain Store Age* survey of discount buyers.



***Grills are used** as a traffic lure.*

Cookware stages comeback

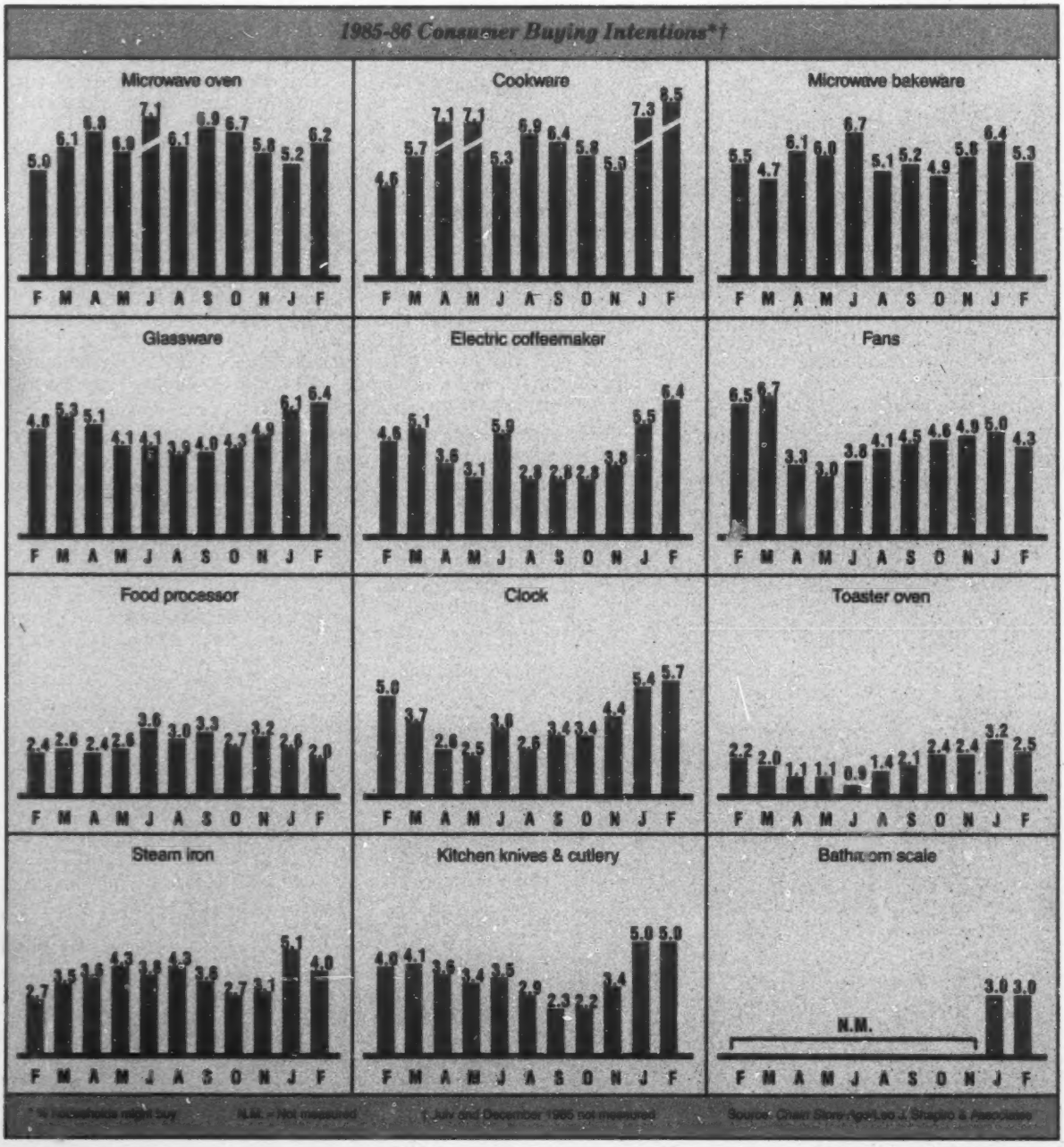
Cookware suffered last year but should make a strong recovery in 1986. According to this month's MarkeTrends, 8.5% of the households surveyed plan to buy cookware in the next 12 months.

This is the highest intent-to-buy percentage logged since *Chain Store Age*/Leo J. Shapiro & Associates started tracking the classification. It far exceeds the low 4.6% of households interested in cookware.

Retailers confirm the sales bonanza in cookware. They say sales are being activated by anodized cookware, copper cookware, better value cookware sets and increased promotion. Department stores are giving up as much as eight pages in advertisements to cookware messages from vendors such as Calphalon, All-Clad LTD and Magnalite.

After three months of declining intent-to-buy, microwaves show a resurgence this month with just over 6% of those questioned indicating plans to buy a microwave.

Other categories did not fare as well. Intent-to-buy microwave bakeware dwindled from 6.4% last month to 5.3%. Consumers are putting plans to buy fans, food processors, toaster ovens and steam irons on hold. □


1985-86 Consumer Buying Intentions*†
Microwave oven
5.0 6.1 6.8 6.9 7.1 6.1 6.9 6.7 5.8 5.2 6.2
Cookware
4.6 5.7 7.1 7.1 5.3 6.9 6.4 5.8 5.9 7.3 8.5
Microwave bakeware
5.5 4.7 6.1 6.0 6.7 5.1 5.2 4.9 5.8 6.4 5.3
Glassware
4.8 5.3 5.1 4.1 4.1 3.9 4.0 4.3 4.9 6.1 6.4
Electric coffeemaker
4.6 5.1 3.6 3.1 5.9 2.8 2.8 2.8 3.8 6.5 6.4
Fans
6.5 6.7 3.3 3.0 3.8 4.1 4.5 4.6 4.9 5.0 4.3
Food processor
2.4 2.6 2.4 2.6 3.6 3.0 3.3 2.7 3.2 2.6 2.0
Clock
5.0 3.7 2.6 2.5 3.0 2.6 3.4 3.4 4.4 5.4 5.7
Toaster oven
2.2 2.0 1.1 1.1 0.9 1.4 2.1 2.4 2.4 3.2 2.5
Steam iron
2.7 3.5 3.6 4.3 3.8 4.3 3.6 2.7 3.1 5.1 4.0
Kitchen knives & cutlery
4.0 4.1 3.6 3.4 3.5 2.9 2.3 2.2 3.4 5.0 5.0
Bathroom scale
N.M.
3.0 3.0
F M A M J A S O N J F
* % households might buy N.M. = Not measured † July and December 1985 not measured
Source: Chain Store Age/Leo J. Shapiro & Associates

Upgraded tastes in glassware

***Though most in** the survey "preferred" Waterford, Libbey actually sold best.*

Retailers have been integrating fine glassware into everyday selections in the housewares department. Their efforts are paying off in greater recognition of better glassware, according to this month's MarkeTrends report.

When households were asked what brand glassware they would buy, an astonishing 12.5% picked Waterford, a label associated with fine glassware. Waterford was mentioned by only 5.6% in the September 1985 study, and only 1.8% of the poll in April 1985.

During the past years, MarkeTrends finds, Libbey was the brand most purchased. Almost 40% selected that label. Anchor Hocking was purchased by 13.6%, a store brand 6.8%, Waterford 5.1%, Corning Lead Crystal 5.1%, Lenox 3.4% and Princess House 1.7%. It will be interesting to see if Waterford translates a strong share of mind into solid sales volume.

Discounters are still a logical outlet for the purchase of glassware, with a 30% market share. That is down, however, from 38.4% who picked a discounter in a similar study conducted in 1983.

February kicks off what should be a strong year for glassware. Last year sales continued an uphill climb from February through May before dropping in June. Currently, 6.4% of the households questioned plan to buy glassware in the next 12 months, up significantly from only 4.8% of those surveyed last year at this time. □

Middle price points gain
How much would you expect to pay for glassware?

	August 1983	February 1986
under $15	56.8%	43.6%
$35 and under	20.9	34.7
$36 and up	22.3	21.7

Source: *Chain Store Age*/Leo J. Shapiro & Associates

Big 3 dull in cutlery

Sears, J. C. Penney or Montgomery Ward often come to a consumer's mind as the outlet where they would be likely to buy cutlery. The image fades, however, when it actually comes to plunking down money, according to this month's *Chain Store Age*/Leo J. Shapiro & Associates MarkeTrends Research.

Just over 25% of the households surveyed plan to buy cutlery at The Big 3, but only 10.3% actually last purchased there. Discounters most often pick up the business, with 22.4% of those who recently bought purchasing at a discounter, vs. only 18.7% who had a discounter in mind.

This suggests the Big 3 are not giving customers the selection and price they desire in cutlery. Discounters are indeed moving toward better cutlery selections.

Discounters are smart in their moves to grab the business. *CSA* research suggests the cutlery category will take off in the next 12 months. Five per cent of the households surveyed are in the market for cutlery, the highest level of intent-to-buy recorded since *CSA* started tracking the classification last January. Cutlery is higher on shopping lists than steam irons, food processors and toaster ovens. □

***Discounters are increasingly** moving toward better cutlery.*

No major shift in cutlery prices
How much would you expect to pay?

	April 1985	February 1986
$25 and under	29.0%	26.2%
$26-$50	27.1	28.2
$51-$124	10.6	13.6
$125 and up	4.8	5.8
Not answering	28.5	26.2

Source: *Chain Store Age*/Leo J. Shapiro & Associates

Bathroom scale features differ

Bathroom scale manufacturers keep trying to hike the price of scales by adding innovations, but customers will not be willing to trade up.

That is the message sounded in this month's in-depth look into the $150 million bathroom scale market.

Almost 78% of those queried by *Chain Store Age*/Leo J. Shapiro & Associates indicate they expect to pay under $30 for a scale. Of those who recently bought, 80% did indeed pay less than $30.

Discount stores sell more scales

	Where would you buy a a scale?	Where did you last buy a scale?
Discount store	38.0%	31.6%
Big 3	28.3	17.5
Department store	8.7	14.9
Catalog showroom	15.2	13.2
Drug store	2.2	2.6
Product specialty store	3.3	2.6
Appliance store	2.2	1.8
Other	2.1	15.8

Source: *Chain Store Age*/Leo J. Shapiro & Associates

Manufacturers admit to price sensitivity in the market. They say they have to drop prices of scales, even those with digital read-outs, to rock bottom prices in the $19 to $35 range.

Because shoppers look for price, discounters are a natural shopping spot. K mart commands a hefty portion of the business with 17.4% planning to buy a scale at a local K mart.

Sears is another primary shopping location with 22.8% of those indicating plans to purchase within the next 12 months expecting to buy at Sears. These figures may be somewhat disappointing, however, since only 14% who actually bought did so at Sears.

No brand holds a grip on the market. Counselor was the favorite with 24.2% of mention's followed by General Electric with 18.2%, Borg with 12.1% and Detecto with 6.1%. □

Good housewares items never die

What a difference a year makes. Just last February we were predicting a gloomy year for cookware, steam irons, food processors and certain specialty housewares gadgets like ice cream makers.

Our *Chain Store Age*/Leo J. Shapiro & Associates MarkeTrends Research underscored the lackluster outlook. Last February, only 4.6% of those surveyed indicated an interest in purchasing cookware in the next 12 months. A meager 2.4% were in the market for a food processor; 2.7% for a steam iron.

Early 1985 did prove to be devastating for those items. Cookware volume was tarnished by a raft of imports, food processor margins plummeted thanks to price wars and specialty items disappeared from shelves in favor of faster turning goods.

Just when all hope was gone, the industry rebounded. Anodized cookware hit the market. Sunbeam's Oskar debuted. Cordless and smart irons took command. And, a glamorous, yet simple to use ice cream maker called Donvier found a place on store shelves.

It was magic. The impact these items made on respective categories boosted overall interest. Plans to buy cookware are at a high of 8.5% of consumers surveyed in this month's MarkeTrends. Four per cent of households questioned are in the market for a steam iron, up from only 2.7% last year at this time.

What this says is that housewares manufacturers are resilient. When things look bleak, they work harder. They often look for a way to make products better . . . they create a reason to buy a new iron, even if the old one still works.

I can't think of many other industries capable of reviving sinking categories. When video games started faltering, toy manufacturers stood back and watched. Electronics vendors waved goodbye to eight track players and CB radios (although consumers are trying to bring them back).

The housewares industry won't let a category die. It is an industry fast to react and this strength helps products survive.

There are a few categories tracked by *CSA* in need of some ingenuity as we enter 1986. Microwave bakeware, for example, is showing some signs of fatigue—suggesting the category is overloaded with products not offering true value.

* * *

This month *CSA* takes a look at the new Underwriter Laboratories standards for blow dryers. The new guidelines will hike the cost of blow dryers as much as $10. Retailers owe it to their customers to explain why blow dryers will soon cost more, especially when merchants have been almost giving them away for years. Manufacturers should do their share, too. I recommend a campaign stressing the importance of the new safety immersion rules. How many customers actually look for UL listing now? But how many would if they realized it might mean a difference between a tested product vs. a potentiallly dangerous one?

Press campaigns touting "the Union [garment] label" or the Good Housekeeping Seal have earned my respect. Maybe it is time a UL listing was something I demanded.

When consumers perceive an advantage, especially a safety feature, they are willing to pay more, as witnessed by turn-off irons, says Paul Saxton of Sunbeam. After seeing blow dryers burn up in tests at UL I'm willing to pay a few more bucks to avert an accident.

—Faye Brookman

won't pay more than $29.99, tops, because of the discounters."

However, some others are still willing to fight for the business. Fortunoff's, for example, headed a catalog ad, "Chinese tablecloths, $27.99 all sizes." It featured two imported embroideries, regularly retailing for $60 to $90 at the low price.

In placemats, retailers expect the category to continue along the same path it's been traveling—one of a solid color story. The most success comes from keeping the merchandise in stock and treating it like a fashion, ready-to-wear classification by rotating colors every few months.

Department stores are further developing their pleated assortments with miter-cornered mats while discounters are continuing to shift emphasis from vinyls to fabrics. One East Coast mass merchant recently took his selection from a 50% vinyl/50% fabric mix to one that is 30% vinyl/70% fabric. He says, "Placemats are a sensational category. Fabrics are doing great!" His best price point is $1.29.

Quilted mats, however, are leveling off for all retailers, although they continue to be a strong part of the placemat business. While some department stores are expanding into miter-cornered, channel mats and others are promoting quilted sets, a few merchants have retreated from the classification altogether. One Northeast retailer says it is impossible to compete on price with the discounters and off-pricers in the area.

Still, overall, table linens remains a profitable department for most merchants, despite the increase in promotional activity within it. Margins have not deteriorated from their low to mid 40s position because the majority of retailers promote from within current assortments rather than bringing in items that may have to be marked down at a later date just to clear inventory.

Additionally, the category is not as promotional as other home textiles departments. Looking at the average, retailers say only 45% of the merchandise is sold at promotional prices.

Nonetheless, one retailer notes, "if you don't have something on ad every week, you don't do business." Retailers concede that advertisements do bring in traffic and stimulate the basic solid color business in both tablecloths and placemats. □

Intention to buy strong

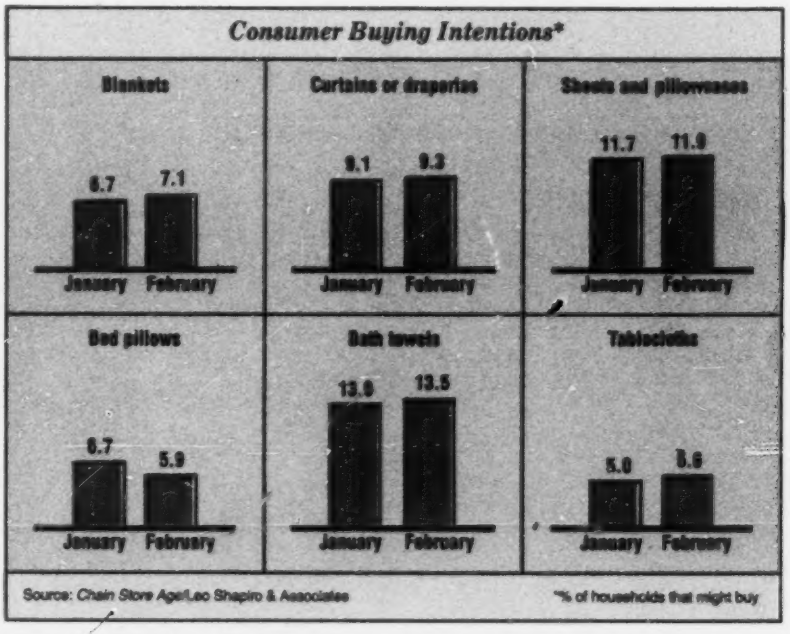
Intention to buy during 1986 remains very strong in blankets and curtains and draperies.

Blankets, for the second consecutive month, is the most likely category to exceed last year's sales. Higher natural fiber contents and an increased interest in throws perhaps are fanning the fire.

Curtains and draperies, too, should have a good year, according to the study. Industry sources concur with *CSA*/Shapiro figures, saying soft treatments are growing at a faster rate than the hard looks.

Bed pillows again have the weakest market for '86. This follows '85 trends where the category was off for the first six months. However, pillows are not planned purchases by consumers and this may be reflected in the numbers. Promotions (which always prompt sales in this category) brought back the volume last year and should be planned for during the next 12 months to keep the business steady.

Towels, sheets and tablecloths have moderately strong markets this year. Like pillows, these categories, too, are stimulated mostly by promotions. All three have prospective markets that are approximately half of their past ones. □



Blanket shoppers warm to discounters

Although customers may think quality is almost as important as price when it comes to choosing a store to shop for blankets, they quickly change their minds once they go shopping.

This month's *Chain Store Age*/Leo J. Shapiro & Associates MarkeTrends shows that 31.9% of those planning purchases say they would choose a store based on quality, but only 11.1% of the past consumers made quality their deciding factor. Low prices and convenient store locations played a bigger role in the final decision.

Approximately 22% of the past purchasers named convenient store location as the top priority in selecting an outlet compared with 6.4% of the future buyers who named convenient location. Price was cited by 50% of those who recently bought a blanket as the most important consideration, while 44.7% of the prospective shoppers said price was most important.

It is not surprising that the sur-

One retailer recently observed that a promising plush toy that will cost the store $18 probably won't be sold for more than $20 because of consumer resistance and growing-price competition. A $2 margin would be bad, but if the price tag on a promising new license scares away customers, that would be worse. Similarly, Wuzzles is expected to sell for $15 to $18 in its second year and Care Bears still demands a $23 price point for the largest size.

Let them eat cake: Despite one retailer's grim pronouncement that "manufacturers don't give a damn about retailers' profits," William L. Garrity, chairman and ceo, Schaper toys, says the prospect of a growing number of toys becoming loss leaders in a retailer's mix "is a real concern among manufacturers because poor retail results must, inevitably affect manufacturers. He reports that the topic was discussed at a recent Toy Manufacturers of America meeting late last year.

Garrity urges retailers to "try like hell to give the appearance that they have the promotional stuff and damned good value. Position the toys that have good margins and use co-op advertising dollars to maintain gross margins."

Gary McCoy, national sales manager for Dakin's Fun Farm, says the potential for lost profitability in plush is "a major worry of all the buyers."

The company's newest entry, Kissy Poo, will be promoted on television, but Dakin is aware of the perils of overexposure. He says the company has put together a program that it hopes will produce margins of 35% to 40% for retailers. Citing its Garfield program as an example, McCoy points out that Garfield remains profitable because it is not a TV toy per se and therefore not subject to the cycle of overnight success and sudden decline. The company hopes for a similar pattern for Kissy Poo.

McCoy says an overproliferation of licenses, especially in formerly profitable plush will produce a negative reaction from retailers. He says that in such an event, "The toy industry would go back to basics and the importance of toy licensing would fade."

Isabel Miller, vp/licensing for Henson Associates, says "There is a plethora of plush and there is no uniqueness. That's what's missing. Licensors and manufacturers are parading them out."

She believes the abundance of licensed plush in 1986 will be good for the category in the short run, but is concerned that buyers who find it necessary to price promote the profitability out of plush will react to licensed properties by rejecting them all.

Miller says this overabundance will cause the pendulum to swing back in the other direction and relegate licensed toys to a minor part of the assortment rather than the 60% to 70% majority they now account for.

Do retailers think the pendulum will swing that far back, bringing a resurgence of generic plush at the expense of licensed goods? Most say it's too early to tell for sure and some think that better, more stable licensing programs might help avoid such a backlash. The keys, say retailers, are strong product development programs that produce attractive items with some play value; solid, diversified promotional support from vendors and toys which are priced in such a way that they represent good value to the consumer. □

—Michael Hartnett

Quiet Christmas for licensing

Despite a spate of new licenses—or perhaps because of them—Christmas' top properties turned out to be holdovers from the 1984 holiday selling season.

A *Chain Store Age* survey of buyers in four categories heavily influenced by licensing—toys, stationery, home textiles and children's wear—found Masters of the Universe, Transformers and Cabbage Patch easily the most popular licenses of the season. Among new licenses, only Voltron gathered significant support, although Wuzzles and Pound Puppies also received some mentions.

The generally soft season for licensing business left many buyers unsure which new properties would be among this year's winners. Asked to pick those licenses they expected to grow into top sellers, buyers mentioned Teddy Ruxpin, Popples, Rambo, Pound Puppies, Furskins and Gummi Bears. But no license received more than a few mentions and most buyers simply didn't bother hazarding a guess.

Toy buyers seemed most disappointed with the way the season's business turned out, and several blamed the proliferation of licenses for the poor business. One buyer for a Southeastern discount store chain described the year as "slow for new licenses." Another lamented the number of "licensed items in the over $25 cost/retail category." Such high prices for licensed goods may have been one reason why a department store toy buyer reported: "Basic toys are hot!"

Nearly every toy buyer who took part in the survey claimed that gross margins on licensed merchandise sold during the Christmas season averaged less than 25%. That led one buyer to comment: "There is more risk than opportunity in licensing."

Mickey Mouse was the most popular license among children's wear buyers, who seemed to favor classics like Looney Tunes, Snoopy and Disney characters. Those new licenses gaining some recognition from children's wear buyers included Hugga Bunch, Rainbow Brite and Masters of the Universe. Absent from their lists were many boy-oriented licenses such as GoBots, Transformers and G. I. Joe.

Christmas' top licenses*

1. Masters of the Universe
2. Transformers
3. Cabbage Patch
4. G. I. Joe
5. Voltron

Most promising new properties*

1. Teddy Ruxpin
2. Furskins
3. Popples
4. Pound Puppies
5. Rambo
6. Gummi Bears

* Source: *Chain Store Age* survey of toys, stationary, home textiles and children's wear buyers.

Profitability in licensed goods has become so difficult that additional sku's may not prove a worthwhile investment.

Profits still tough on characters

The business of selling character licensed products has become so competitive that some discount buyers who expect sales to continue growing nonetheless will not enlarge their offerings of licensed merchandise.

More than 72% of discount buyers responding to a recent survey say they believe character licensed product sales will surge ahead. Despite this vote of confidence, slightly more than 40% of the buyers do not plan to expand their commitment to the category.

The message from these buyers is clear: profitability in character licensed goods has become so difficult that additional sku's may not prove a worthwhile investment. Toy buyers in particular rate the profitability of most character licenses extremely low, but buyers in all categories surveyed, including home textiles, stationery and apparel, generally gave the most popular character licenses low marks on profits.

The survey was conducted last summer and so tends to be weighted more toward licenses which were already well established; however, the survey is most useful for the way it confirms certain broad trends which have emerged in licensing and indicates how buyers feel about the category as a whole.

Of the four types of buyers surveyed, those responsible for apparel were most bullish about sales; 80% of them expect sales to increase. Toy and home textiles buyers also felt good about sales; more than three-quarters of them expected volume to grow. Only in stationery did less than a majority of buyers say they did not expect increased sales of licensed products.

***Overproliferation of licensed goods** may mean profit and sku problems.*

Home textiles buyers, on the other hand, were least enthusiastic about adding to their assortments. More than half said they did not intend to go to more sku's. Four of 10 stationery buyers also will not increase sku's, while 35.3% of toy buyers do not believe it likely they would increase sku's.

Behind those numbers, of course, is the increasingly promotional nature of the category. Almost 65% of the toy buyers say they stock licensed merchandise primarily to increase traffic, while another 35% say that both better traffic and gross margins are important to them.

And buyers feel that the category will only continue to be heavily promotional. Nearly 60% say their chain planned to increase its promoting of licensed goods in their category. Toy buyers feel strongest about this. More than three-quarters expect more promoting. But only half of domestics and apparel buyers think it at all likely their chain will increase promotional efforts in licensed goods.

Additional promoting promises to shrink margins which are, in some cases, already relatively low. Almost 65% of toy buyers say they got less than 25% margins on licensed merchandise. Apparel buyers report the best margins: 7 of 10 say margins fall within the 35% to 45% range. More than 40% of home textiles buyers also report margins in that range.

The survey, which also measured vendor programs, found a broad base of discontent among buyers about co-op advertising and pockets of dissatisfaction with vendor deliveries of licensed goods. But most

Discount buyers rate licenses on . . .

	Sales	Profits	Consumer Advertising	Delivery	Co-op Advertising
Toys	1.96	1.65	1.99	1.85	1.74
Apparel	2.06	2.04	2.32	2.33	1.62
Home Textiles	2.16	2.13	2.97	2.31	1.48
Stationery	1.91	2.08	2.36	2.36	1.79

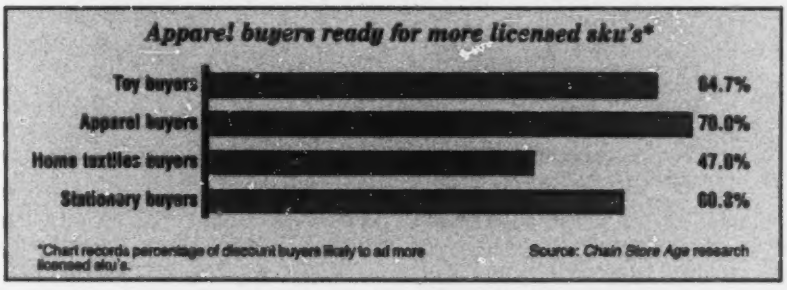
*Ratings based on a scale of "1" to "3" with "1" signifying "poor" performance and "3" signifying "excellent" performance.
Source: Chain Store Age research*

Apparel retailers are the most bullish in forecasting sales increases.

Buyers say apparel yields best character license margins

Gross Margin	Less than 25%	25%-35%	35%-45%	More than 45%
Toys	64.7%	29.4%	—	5.9%
Apparel	—	30.0	70.0	—
Home Textiles	11.8	47.1	41.1	—
Stationery	20.0	—	50.0	30.0

Source: *Chain Store Age* Research



buyers also gave licensed products vendors good marks for their consumer marketing programs.

Asked to rate co-op advertising on a scale of "1" to "3," with "1" being poor and "3" being excellent, toy buyers gave 27 licenses an average rating of just 1.74. Only four of the 27 licenses, in fact, received above a 2.0 rating on co-op advertising. The highest rated: Barbie, GoBots, Transformers, Masters of the Universe. The lowest: Fraggle Rock and Star Wars.

Home textiles buyers are even less impressed with co-op and programs. The average rating these buyers give licensed product vendors—1.40. Only one product, Care Bears, achieved better than a 2.0 rating. Of those licenses carried by more than 10 chains, Cabbage Patch scored the lowest on co-op programs in home textiles—1.1.

Apparel buyers are slightly more positive about co-op programs. Their average rating for vendors—1.62. Again, however, just one license scored better than 2.0. That was Snoopy, rated 2.3 by apparel buyers. Nine buyers, voting on Cabbage Patch, rated co-op programs a 1.3, the lowest mark achieved by any of the major licenses in the apparel category.

Widespread shortages of top toy licensed products no doubt prompted many toy buyers to give vendors poor marks on delivery. But buyers in other categories were generally pleased about vendor delivery.

The average rating for delivery of toy products was 1.87. Seven of 27 licenses scored above 2.0: Rainbow Brite, Pink Panther, Barbie, Garfield, Disney, Muppets, Sesame Street. The lowest rated licenses, by toy buyers: Hugga Bunch, Cabbage Patch, Sectaurs.

Stationery buyers rated licensed goods vendors highest on delivery of product. The average rating in this category was 2.37.

Rating consumer advertising by vendors, toy buyers were again the harshest critics (in 5 of 7 categories, in fact, toy buyers gave vendors the lowest marks of the four groups of buyers surveyed). The average ranking of consumer advertising programs, as recorded by toy buyers, was a 1.99. Masters of the Universe and Barbie got the best marks for their consumer advertising programs, 2.8. The lowest ratings went to Pink Panther (1.3), Robotman (1.3) and Fraggle Rock (1.3).

Stationery buyers were most pleased with consumer advertising. Their average rating of vendor efforts was a 2.37. The best-rated licenses: Care Bears, Cabbage Patch and Masters of the Universe, which all received a rating of 2.6.

The two most crucial areas, sales and profits, garnered the most diverse ratings. Toy buyers, not surprisingly, gave the lowest rating among the four groups of buyers to the profitability of licensed goods. Stationery buyers were most discontent with sales of licensed goods. Home textiles buyers, on the other hand, were most pleased by both the profits and sales of licensed products.

The average profitability rating of toy licensed merchandise was just 1.65, well below the "acceptable" level. Only 2 of 27 licenses scored better than a 2.0, Sesame Street (2.3) and Garfield (2.3). Most licenses scoring the lowest on profitability were properties whose sales were also on the wane—Star Wars, Get Along Gang, Rose Petal Place. But two new licenses which received strong marks for their sales performance received low profitability ratings, Sectaurs (1.3) and Hugga Bunch (1.3).

Apparel and home textiles buyers were pleased with profits. Apparel buyers rated Transformers (2.8), and Masters (2.8) nearly perfect. Home textiles buyers were bullish on the profitability of Care Bears (2.3), Masters (2.3), Transformers (2.3). These licenses were carried by the majority of buyers responding, while some properties carried by just a few buyers also scored well: Strawberry Shortcake (2.2), Disney (2.4) and Barbie (2.7)

On the sales scoreboard, Masters and Cabbage Patch, both carried by the vast majority of chains, received perfect 3.0 scores. Transformers racked up a 2.8. □

Big vendors shift to earlier showings

Toy Fair continues to be more important than preshows, say toy retailers.

***Greater emphasis on year-round sales** makes preshow activity crucial.*

With toy manufacturers and retailers pushing for stronger retail sales outside the crucial fourth quarter, top manufacturers are trying to add four months to the selling and shipping schedule by offering previews of new products to key retailers in October and November, rather than waiting for the February Toy Fair.

As the fourth quarter pipeline nears maximum capacity for toy shipments and retail sales, both sectors of the industry have been forced to seek sales growth outside that final 90-day period. In recent years, Mattel in particular has invited top retailers like Toys "R" Us, Sears, K mart, Woolworth and Montgomery Ward to the sunny climate of Arizona and California to preview new products and line extensions for the coming year.

Pre-Toy Fair presentations are not new to the industry, but as the major players become even more important through sales growth and the acquisition of smaller companies, these early product showings by Mattel, Hasbro, Kenner, Tonka and others are making an impact on the market. The shows give major vendors an earlier read on the potential of their new lines. As one industry insider observed, 60% to 70% of their total annual sales have already been locked up before they arrive in New York for Toy Fair.

Retailers are reluctant to admit that the earlier showings produce assortments that have a greater dominance by the key manufacturers, but smaller- and medium-sized competitors are feeling the heat and they are stretching their budgets to mount presentations of their own. The alternative would be to wait for Toy Fair, when their most important retail customers may have already shaped their programs and would come to Toy Fair looking for a few sku's to round out their mixes.

With increased emphasis on year-round sales, many manufacturers and retailers say, "Toy Fair in February is ridiculous." The retailers say it will always be useful for them to make their rounds of the showrooms in February, but it is too far into the new fiscal year to delay all the important commitments.

Douglas Thomson, president of the Toy Manufacturers of America, is a supporter of preshow presentations but doesn't believe they point to a need to change the Toy Fair schedule. He says there is not yet enough reason to make the change but says, "We will have to watch it."

Thomson says that regardless of the timing of pre-Toy Fair shows, the major manufacturers will still want to come to New York in February to show their entire lines and discuss details of their programs. He also points out that if everybody were invited to pre-Toy Fair presentations, the buyers wouldn't have the time to attend all the separate presentations.

The fact that the biggest, most successful manufacturers are gearing their preshows to the largest retailers begs the question of whether smaller manufacturers and retailers will be left to try and meet each other's needs for sales and product. Thomson says that is not the case because distributors who serve smaller retailers are invited to preshows. As for smaller manufacturers, he singles out Worlds of Wonder as an example of a small company that introduced a new product, Teddy Ruxpin, without benefit of preshows or Toy Fair and scored a hit.

"If you have a hot product you are going to sell it, regardless of the pre-fair shows," says Thomson.

Down in the trenches: Retailers give the shows mixed reviews. They relish the opportunity to look over potentially important new lines months in advance, but many resent pressures from manufacturers to make firm buying decisions in October and November.

Rick Hans, Sanger Harris' toy buyer, went to his first pre-Toy Fair presentation in October at the invitation of Mattel. His reaction? "Seeing new categories was helpful. Mattel has such an extensive line, and it was all new product."

Not as helpful was being pressed

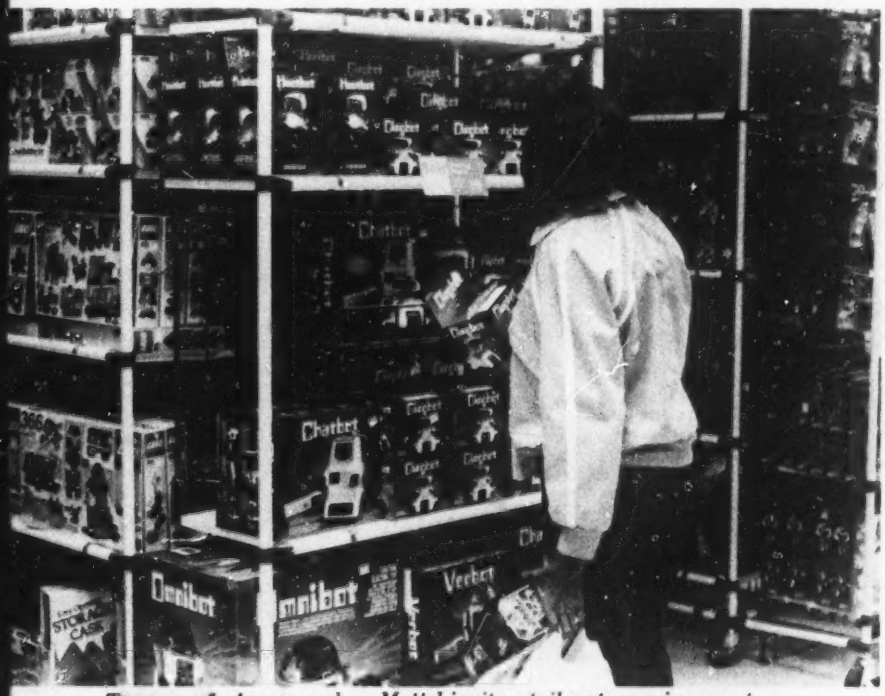
Manufacturers back up year-round sales goals with more advertising dollars

	1985	1984	1983	1982
First quarter:	[illegible]	[illegible]	[illegible]	[illegible]
Second quarter:	23,116.9	19,240.0 (14.5%)	13,408.2 (14.5%)	8,381.8 (9.4%)
Third quarter:	[illegible]	[illegible]	[illegible]	[illegible]
Annual total:	—	133,033.6	92,583.6	89,353.1

[1] In millions of dollars
[2] % of annual spending for the quarter
Source: Broadcast Advertiser Reports

to commit to line extensions on products that were not fully tested in the marketplace until the fourth quarter. Wheeled Warriors, for example, were new in 1985 and he didn't want to commit to more of the line until he had seen sales results for more of the fourth quarter.

Hans is confident that buyers will not tie up too many dollars in early commitments because it wouldn't allow them to make adjustments as it became necessary. As for moving Toy Fair up by two to four weeks, he says it wouldn't work because too many buyers are putting the finishing touches on last year's program.



Top manufacturers such as Mattel invite retailers to preview new toys.

Also, there are a lot of buyers traveling to Hong Kong and the Nuremberg Toy Fair in January and early February.

Tom Castle, toy buyer for The Broadway stores, likes attending the early shows. "It is healthy for me. It would be very difficult without them." Seeing major lines prior to Toy Fair gives him more time to plan the major part of his assortment. He goes to Toy Fair with the latitude to commit to some of the lines he has already seen and has more time to look over other, smaller lines that are important to his mix.

Seeing strong additions to an already strong line at a preshow may indeed cause a retailer to commit to Mattel, Hasbro, Tonka or Kenner products—to the detriment of other manufacturers. But the reverse is also true. If retailers are unhappy with new products and line extensions that they see in October and November, they have plenty of time to make the necessary changes in their assortment.

Another retailer who attends multiple showings each year says they are an advantage to him because they allow his chain to make earlier buying decisions, which allows better budgeting and more time to plan promotions. Unlike his colleagues, he doesn't favor rescheduling Toy Fair earlier in the year. He says Toy Fair will continue to be more important than preshows because it is the main arena for presenting finished products, rather than just mock up samples. And, he points out, many new products are purposely held back for introduction at Toy Fair.

One reason for holding back some products for Toy Fair may be what one manufacturer described as "an industry concern for the security of properties." Knockoffs!

Adjusting to change: Small- and medium-sized manufacturers feel they have no alternative but to respond to preshows by the majors with presentations of their own. Depending on their resources, they may extend hours at their showrooms during the year, they may put together their own presentation and take it on the road to rented suites in the major cities, or try to match Mattel and Hasbro with less lavish preshows for their key customers.

At Schaper, chairman and ceo William L. Garrity says the current preshows by the largest manufacturers "work to our disadvantage." Smaller companies like Schaper don't have the resources to set up parties and lavish presentations in California, Arizona and Boston. "It is a competitive advantage that allows them to get to buyers two, three, or four months earlier."

Schaper does bring in a few selected accounts to its headquarters in Minnesota for presentations on new products and company support. The company also has traveling presentations that it brings to California, Chicago and Dallas.

Matchbox began toy presentations of its own in the fall of 1985. Marketing director Bob Bernhard says the fall showings became necessary because the company's product lines have expanded beyond the cars for which it was best known and also in response to clients who need more time to plan their programs and promotions and schedule deliveries.

Bernhard says Matchbox would have scheduled its own shows even without the competitive nudge from larger companies because of the added importance retailers place on getting an earlier start. He also points out that "The line must be of a stature that makes it worth the retailers' trouble to attend."

Dakin doesn't have the resources to conduct pre-Toy Fair presentations, but the company has no choice but to respond with its own program to be on an even footing with competitors. Gary McCoy, national sales manager for Dakin's Fun Farm, says the company feels the pressure to go in that direction.

If there is a plus to the preshows for the smaller companies it is that toy buyers need a couple of days to see all the new product unveiled by major manufacturers. McCoy says if that process is largely accomplished before Toy Fair, buyers will have more time to seek the smaller lines.

The trick will be to entice buyers who still have money to spend. □

Shoppers rate toy specialty stores tops

Price is key in the customer's selection of where to shop for toys, so retailers promote a value image.

Nearly 8 out of 10 shoppers say toy prices are too high, according to a consumer survey by *Chain Store Age/Better Homes & Gardens*, and a clear majority of those surveyed say low everyday prices are the most important factor to them in choosing where they will shop.

An overwhelming majority of shoppers surveyed say they shop for toys at more than one store, and with almost two-thirds saying they shop for toys just once or twice a year—basically birthdays and Christmas—toy retailers have no choice but to reinforce the value image of their stores. The survey suggests the best way to do that is through selective promotions and by striving to present a broad product assortment that meets the needs of a customer base that comes in and out of the market during the course of a year.

Over the past two years, shoppers have consistently said they expect to spend between $5 and $14.99 for toys. There continues to be strong support, 18.3% of those surveyed, for spending up to $19.99, but consumer interest dwindles rapidly once the average price goes beyond that price point (see chart). Results from the 1984 survey show the same pattern.

The successes of $34.97 Cabbage Patch Kids and the $69.99 Teddy Ruxpins clearly illustrate that consumers are willing to spend more than $19.99 for a toy, but the results of the survey indicate there is built-in resistance to higher price points. Higher-priced toys that have special appeal will always do well, while other toys that offer good value at higher price points will whither from neglect unless they can offer something unique.

Action figures well-priced: The strong preference for lower price points in toys is almost certainly being reinforced by the pricing levels on action figures and robotics. At $4.99 to $7.99, it is less costly for parents to buy their children a "hot toy" when it is a single action figure.

A surprisingly large percentage of those surveyed, 39.2%, say they spend less than $50 a year on toys. The under-$50 category represents the majority point of view across all consumer groups, regardless of whether they are single or married, young or middle-aged, with or without children, or earning $50,000 or $100,000 annually.

Fortunately for retailers, the number of consumers willing to spend from $50 up to a maximum of $249.99 is still the majority, 46%. About 7% of those surveyed say they will spend between $250 and $500 a year on toys.

Of 15 possible survey responses to indicate the importance of various store services and characteristics, the one rated dead last was the importance of carrying a merchandise mix not limited to toys. The responses suggest that many shoppers do not wish to combine toy shopping with their other errands.

Store atmosphere and sales assistance also hovered around the bottom of the "least important" list. The survey results suggest that the continuing sensitivity to toy prices is apparently pushing shoppers to value cash savings over a pleasant shopping atmosphere. However, not mentioned in the survey is that many shoppers probably are able to take store cleanliness and orderliness for granted and, therefore, give it little or no value.

Sales assistance is probably losing some of its importance because retailers and manufacturers have trained consumers to know what they want before they come into the store. With so many hot items being presold through promotions, shoppers have learned to rely less on salesclerks.

Choice of store: When a consumer wants to buy a toy, the first store he visits will be the one perceived to have the lowest everyday prices. And, almost as important, the store will have a wide selection and quality products.

***The majority of customers** shop more than one store for toys.*

Discount stores lose ground to specialists*

Type of store	1984	1985
Discounter	56.4%	44.7%
Department store	12.5	16.1
Toy specialist	41.2	46.7
Sears/Penney/Ward	18.1	15.6
Variety store	7.3	9.7
Drug store	2.8	5.9
Other	11.6	8.9
Don't know	1.2	4.2

*Store of first choice. Totals exceed 100% because of multiple mentions

Source: *Chain Store Age/Better Homes & Gardens*

Consumers set limits for toy expenditures

Plan to spend for a toy		Annual toy outlay	
$0-$4.99	5.8%	$0-$49.99	39.2%
$5-$9.99	28.1%	$50-$99.99	19.0%
$10-$14.99	29.9%	$100-$149	13.0%
$15-$19.99	18.3%	$150-$199	7.2%
$20-$24.99	7.4%	$200-$249.99	7.2%
$25-$29.99	2.3%	$250-$299.99	1.4%
$30-$34.99	0.5%	$300-$349.99	3.1%
$35-$45 or more	0%	$350-$400 and more	3.4%
Don't know/ no answer	7.7%	Don't know/ no answer	6.5%

Source: *Chain Store Age/Better Homes & Gardens* research

Shoppers rate low prices and selection very important*

Reason shop store	1985	1984	1983
Low everyday prices	80.6	79.1	72.9
Wide selection	65.7	69.1	68.7
Carries quality products	84.8	74.5	79.9
Easy return policy	56.1	67.8	61.6
Advertised specials/sales	58.5	65.4	57.1
Always in stock	51.0	64.1	51.8
Past experience	49.9	53.7	48.5
Store guarantees/ repair service	49.0	54.8	54.6
Convenient location	39.7	48.9	39.8
Fast checkout	37.4	45.2	37.5
Frequent sales	24.3	42.5	36.2
Carries unique toys	30.2	34.0	34.6
Sales assistance	29.2	34.9	29.5
Store atmosphere	21.1	21.8	16.4
Carries more than just toys	19.7	22.3	18.1
Other	0.9	1.9	1.3

Totals exceed 100% because of multiple responses
*% of shoppers who rate these qualities very important
Source: *Chain Store Age/Better Homes & Gardens*

Measuring consumer priorities in selecting the toy store where they will shop shows some shifts. In 1983, a similar survey showed that low everyday prices were very important, but they played second fiddle to product quality. The most important factor in deciding where to shop was toy selection. The same pattern was repeated in 1984, as consumers said they chose their toy store on the basis of toy selection, low everyday prices and quality products.

The 1985 survey shows that when consumers tally up the advantages of various kinds of stores, the majority, 46%, will shop in a toy specialty store first, quite a change from the previous sample in which the majority, 58.4%, said discount stores were their first choice. The most recent survey shows the big gainers to be department stores, variety stores and drug stores. Besides discounters, Sears, Penney and Ward also slipped by about 2.5 percentage points in the survey.

The primary shopping groups for toy specialty stores are the 18-34 age group. They tend to be married, with an income from $35,000 to $50,000, and have four or more family members in the household.

The age group in the survey most loyal to discount stores is from age 35 to 54, with an annual income in excess of $50,000. Most often, these toys shoppers will come from a household that has four or more people in it, including children.

Toy shoppers who prefer department stores tend to be the same young group that is attracted to specialty stores, the 18 to 34 crowd, though not in the same numbers. Their income tends to be in the $25,000 to $35,000 range, and they come from smaller households of two or three people.

Sears, Penney and Montgomery Ward toy shoppers have a similar demographic profile as the department store group. The Big 3 tend to attract the 18- to 34-year-old age group most often. And their income level is most often between $25,000 and $35,000. However, unlike the department store toy shopper, they come from larger households of four or more people. □

Sales of licensed goods top $50 billion

Products bearing the likeness of a cartoon character, designer label or the logo of a football team continue to generate billions of dollars in revenue, $50.1 billion in 1985, according to *The Licensing Letter.*

During the past 12 months, licensed properties continued to proliferate, turning in another year of solid sales growth for products that use something extra to attract the attention of shoppers. The $50.1 billion in sales of licensed goods represents a 25.1% increase over 1984 results of $40.1 billion in sales.

Trademarks and brand names continue to be the most popular type of licensed property, with 28% of total sales that translate into $14 billion. Cartoon characters are a strong second, with 24% of total sales, $12 billion. Sporting licenses helped sell 11% of licensed merchandise valued at $5.51 billion. Computer games accounted for just 2.5% of sales.

Feature films, designers, celebrities and art licenses each account for 7% of the total sales, with a combined total of $10.5 billion.

The five product categories that benefited most from licensing programs are: apparel/accessories, with 36% of total sales valued at $18 billion; toys and games, with 17% and $8.5 billion in sales; publishing/stationery, 12%, and $6 billion in sales; gifts and novelties, 9%, and $4 billion; and home furnishings/housewares, 8% and $4 billion in sales.

Despite an overemphasis on licensing in some categories, as well as a general lack of retail profitability, especially in toys, Arnold Bolka, publisher of *The Licensing Letter,* believes retail sales of licensed products will continue to climb throughout the rest of the decade and reach between $80 billion and $100 billion in annual sales by 1990.

merchants like being caught with an uncompetitive price on such high-profile goods. What results is the equivalent of perpetual price war.

"Since they [the retailers] use these products to promote," says an analyst, "they bring it on themselves. If they didn't do it with film, it would be something else."

Retailers admit their industry is at the heart of the problem, but that does not ease the frustration or point to a solution. "I'm not blaming Kodak," says Millner of Duckwall-ALCO. "It's not their fault people are always kicking them down. They can't force margins on anybody."

Mike Sullivan, a Kodak spokesman, describes the company's dilemma on retail markups the same way. "We give them every tool we can to help them make a profit," he says.

Kodak provides co-op advertising and bankrolls national ad campaigns. Promotional vehicles are available and include the familiar store displays. An incentive profit plan has provided checks during each of the last few years to qualifying dealers, but some buyers say retailers factor those rebates into their pricing policies.

"We cannot force them to sell at list price," says Sullivan. Yet, his company undoubtedly benefits from the higher volume generated by so much promotion.

Kodak remains the photographic giant with as much as 25% of the industry's U.S. business. The company still has its way with film sales, clinging to 80% or 85% of that market, despite inroads by Fuji and others. Moderate pressure will continue from competitors, but analysts expect Kodak to dominate.

And with Kodak's photographic division accounting for 80% of the company's $10.6 billion sales in 1984, corporate interest remains strong and research continues. Last year's reorganization—which split the photo division into 17 groups—may result in a more streamlined, decentralized operation.

Kodak has refused to confirm plans for a 35mm autofocus, but some expect the introduction at a photographic trade show, possibly this month.

Last year, Kodak reportedly agreed to a contract calling for Chinon, an Asia-based supplier, to build the new camera. Kodak also bought a 9.5% interest in Chinon, according to reports published last year.

Chinon has manufactured equipment for Kodak for 20 years. Some observers have speculated that Kodak may make some components domestically for the new camera.

Wherever the 35mm autofocus is manufactured—if it is manufactured—the camera will receive a lukewarm reception from many retailers. Low margins plague the autofocus category and some retailers have sought lesser-known models that could bear a higher markup.

Even as merchants struggle with their camera departments, they can at least be assured of change.

"The photo business is blurring with the consumer electronics business," says an analyst. "We will see them coming together in the stores, too. I think it will be interesting."

"That," says one buyer, "is the photo business." □

Shoppers zoom in on SLR lenses

Technological refinements could boost lense sales, as new cameras bring increased interest in photography.

Pent-up demand and product innovation are expected to combine for a round of increased sales in interchangeable 35mm lenses. While sales go up, general merchandisers will face the challenge of maintaining reasonable margins. Their solution: more private label.

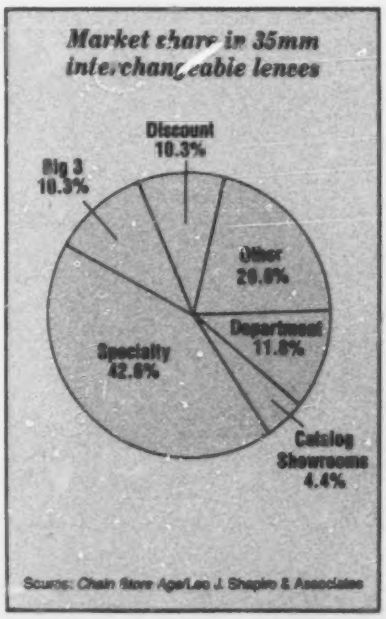
Lens sales have foundered for a year and a half. But advanced new cameras could halt that trend by generating increased interest in picture taking. Minolta, for example, now sells an average of two lenses with each Maxxum.

Refinements in the lenses themselves could also boost sales. Anna Masur, a marketing representative for Vivitar, says she expects customers to start switching to wider-ranged zoom lenses.

Right now, Vivitar's most popular zoom is a 70mm to 210mm, about the same range that sells best for most brands. "The reason it's biggest is that it's the oldest of our lenses," says Masur. "People know about it and come in looking for it."

Newer lenses may change the dominance of that range, says Masur. She predicts a move to lenses of 35mm to 200mm or even to lenses of 28mm to 200mm. Such lenses would allow customers virtually any focal length they would normally use without ever having to change lenses.

Masur notes that zooms are not as



***Refinements in the lenses** could also boost sales.*

sharp as fixed focus lenses but says even the lenses with increased range now provide pictures clear enough to satisfy the amateur market targeted by Vivitar.

Technology aside, sales of interchangeable lenses are expected to pick up because consumers have been postponing purchases. *Chain Store Age*/Leo J. Shapiro & Associates research indicates that the number of people planning to buy an interchangeable lens in the coming 12 months equals the number who bought one in the previous year. Intention to buy is usually only half of actual purchases, so the numbers indicate an increase in sales is due.

Rising sales of lenses would be particularly good news for chain stores because the category is one of the most profitable in the generally hard-pressed photo business.

Private label is the reason for the healthy markup in lenses. Industry insiders say house brand lenses often bear margins of more than 30%, compared to less than 15% for lenses manufactured by the big name camera companies.

In some cases, the private label margins could go even higher. Average wholesale for lenses is $43.22, says Ted Fox, director of marketing for the Photo Marketing Association. But shoppers responding to *CSA* surveys say they spend an average of $113 on a lense. Of those purchasers, 28.5% say they paid less than $100.

Many chains merchandise lenses with no brand name at all. Montgomery Ward, for example, sells house brand lenses with such designations as "Canon Mount" or "Minolta Mount" to suggest the cameras the lenses will fit.

Pressure could come to bear upon the private label lens business, however. Nikon is hinting about entering the lower-priced lens market. About 14% of those who say they plan to buy a lens this year mention Nikon as their brand of choice. Only 10% start out looking for a private label lens.

But once they begin shopping, many consumers quickly switch their preference to private label when they see the big price differences. Research indicates people base their decision on where to buy a lens on price more than any other reason. In fact, 36.7% of those responding to a survey say price or discount is most important in their decision on where to buy. □

SLR sales could be bright

Will features such as programmability and autofocusing allow 35mm single lens-reflex cameras to pick up some of the market share lost in recent years to lens-shutter cameras?

The question is crucial to many camera retailers because the popularity of the autofocus has proved a boon mainly to low-end dealers who thrive on inexpensive, low-margin cameras. Higher-end retailers are still largely seeking a resurgence of sales of the SLR, and all of the accessories which go with it, as a means of building some profitability back into the category.

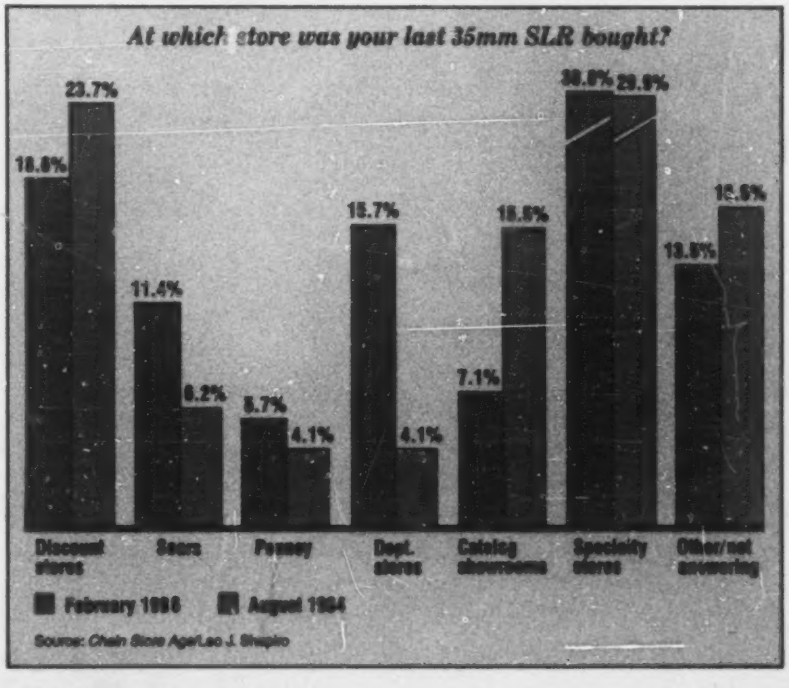
This month's *Chain Store Age* Photo/Camera MarkeTrends illustrates just how much potential SLRs have—potential which often is not translated into sales because of the way customers trade down to lens-shutter cameras once they get into a store.

When asked what type of camera they might buy in the next 12 months, 27.9% of those polled say they will be in the market for an SLR. Another 23.6% will look for an autofocus, while 11.4% say they will buy a disc and 16.4% name an instant as their camera of choice.

In actuality, autofocus cameras outsell SLRs by a slight margin and will probably continue to do so. But the SLR still has a greater share of the consumer's mind. And how much SLRs are able to close the gap between share of mind and market share probably depends on how good a job both vendors and retailers do selling such important features as programmability and autofocusing.

Even with such features adding value to higher-end cameras, the struggle to build profits back into the classification will undoubtedly continue, as the survey illustrates. In a similar survey done in 1984, about 30% of those who had recently bought an SLR said their main reasons for choosing an outlet were the prices and discounts it offered. But in the current study, more than 40% say that a store's prices and discounts are most important in deciding where to buy a camera.

Which store attributes suffer at the expense of price and discounts? Fewer people in the most current survey say they were influenced by such things as a store's selection or past satisfaction in dealing with that outlet. But one attribute whose rating did not change among consumers was the image of quality a store projected. About 11% in both studies said that quality was the most



important element in selecting a store to shop for a camera.

The enormous number of new product introductions is clearly reshaping the market, creating turbulence both at the retailer and vendor level. In the 1984 study, nearly half of those who said they intended to buy a camera mentioned Canon as their brand of choice. In this study, slightly less than 40% mentioned Canon, while about 15% mentioned Minolta and 15% mentioned Nikon.

The study suggests some slippage in market share for both discounters and catalog showrooms. In 1984, 24% of consumers mentioned a discount store as the place where they had purchased an SLR. In the most recent study, discounter share slipped to 18.6%.

More significant, perhaps, is the erosion of share of catalog showrooms, whose number of mentions slipped to 7.1% of everyone who recently bought an SLR, from 15.5% in 1984.

One segment of the business gaining share, according to the study, are full-line department stores. This is likely the result of the successful introduction of more advanced cameras, like programmable SLRs and the Minolta Maxxum, which carry a price tag suitable for department store camera departments. Department stores were mentioned by 15% of those surveyed as the place they bought an SLR.

Holding steady in the market share battle were specialty stores. In the two surveys 30% of those who recently bought an SLR did so at a product specialty store.

As with most photo products, consumer price expectations proved to be higher than the actual price those who have bought an SLR paid. The median price those who intend to purchase a 35mm camera say they will pay for it is $200. Those who actually bought in the past year paid a median of $180.

Among those who have already bought a 35mm SLR, the greatest percentage of purchases occurred in the $150 to $299 range. About 35% paid between $150 and $299, while 7.5% paid from $300 to $399.

But among those who intend to buy a camera in the next year, the largest percentage falls in the $200 to $399 range. Some 30% say they will pay between $200 and $299, while another 22% expect to pay $300 to $399. □

Disc shoppers: hard to get by

Conventional wisdom has it that the disc camera came upon hard times because of poor picture quality and competition from compact 35mm cameras. While that may be true, *Chain Store Age* Photo/Camera MarkeTrends reveals that the demographic profile of the typical disc camera user may have as much as anything to do with tough sales in the category.

The typical disc buyer, according to the survey, has a much more pessimistic financial outlook than camera buyers in general. Nearly half of all disc buyers, in fact, do not believe they will be any better off this year than last, compared with about 70% of all camera buyers who feel they will be in better financial shape this year.

Many disc buyers believe it will be harder to get by financially this year because they do not expect their family income to keep pace with even modest inflation. Only 45%, in fact, expect earnings to rise faster than prices, compared with 60% of all camera buyers who believe their family income will increase at a greater rate than prices.

The typical disc buyer, according to the survey, earns $27,000 a year, compared with the $30,000 a year earned by the average camera buyer and the $31,500 a year earned by the SLR camera buyer. More than 7% of disc buyers are unemployed, compared with just 2.1% of SLR buyers. Only 8% of disc purchasers are college graduates, compared with 24% of all camera buyers.

One enormous problem the disc has had: capturing the younger consumer, who now tends to buy a brand name autofocus camera. About 10% of all disc buyers are under 30, compared with 35% of all camera buyers and 58% of SLR buyers.

Considering those kinds of demographics, it is not too surprising that the typical disc camera buyer finds such things as a store's location and past satisfaction in dealing with a retailer as important elements when deciding where to shop. Surveys consistently show that older female shoppers in low to lower-middle income brackets tend to shop closer to home and are generally more loyal to stores than younger, more affluent consumers.

Nearly 14% of those who have bought a disc say that a store's location is the principal reason why they shopped there for the camera. That compares with just 9.2% of all camera buyers who select location as the primary component in buying.

Nearly as important to the disc shopper is past satisfaction dealing with a store. Some 14% say that good experiences with a store motivated them to return there to buy a disc, compared with only 2.5% of SLR purchasers who say that previous satisfaction sent them back to an outlet.

Less than 39% of those who bought a disc said that price was the main reason they chose an outlet to buy the camera, compared with 45% of all camera buyers who named price as the main component of the buying decision.

The most common outlets for the disc camera continue to be both drug stores and discounters. These outlets evenly divide up about 40% of the disc business. Within the discount group, the *CSA* study shows K mart does about half of the business. □

Why camera buyers choose a store

	Cameras (net)	35mm SLR	Disc
[illegible]	[illegible]	[illegible]	[illegible]
Selection	3.7	5.0	4.5
[illegible]	[illegible]	[illegible]	[illegible]
Satisfaction/past experience	4.0	2.4	11.4
[illegible]	[illegible]	[illegible]	[illegible]
Other not answering	30.7	26.8	9.3

Source: *Chain Store Age*/Leo J. Shapiro & Associates

Recent CSA survey shows that Back-to-School category is thinning out as parents spend less. Apparel is emerging as the strongest category.

BTS: Even affluent spending less

Parents spend less on BTS

BTS $$$	All respondents		$25,000-$34,999*		$35,000-$50,000*		More than $50,000*	
	1984	1985	1984	1985	1984	1985	1984	1985
Under $100	16.9%	19.8%	13.8%	15.8%	9.3%	14.5%	4.0%	9.8%
$100-$199	24.8	32.0	20.3	31.6	17.6	34.0	14.0	31.3
$200-$299	22.9	16.8	24.2	15.9	25.0	14.4	32.0	21.6
$300-$399	14.0	14.6	17.0	17.3	18.5	19.6	16.0	13.7
$400-$499	6.5	7.0	8.5	6.7	9.3	8.3	12.0	9.8
$500-$599	3.5	2.9	3.3	2.9	4.6	3.1	2.0	5.9
$600-$699	1.8	1.2	2.0	1.4	1.9	1.0	2.0	2.0
$700-$999	3.0	2.3	3.9	2.9	4.7	3.1	4.0	3.9
$1,000 or more	6.0	0.6	7.2	0.7	9.3	1.0	18.0	2.0
Don't know/ no answer	0.0	2.9	0.0	2.9	0.0	1.0	0.0	0.0

*Yearly household income
Source: *Chain Store Age/Better Homes & Gardens*

Parents want little more than the basics in back-to-school merchandise. Year after year, they divide their BTS budgets the same way, devoting the same percentage of spending to apparel, shoes, stationery and other categories. No catchy fashion trend has come along to upset the spending patterns.

Surveys by *Chain Store Age* and *Better Homes & Gardens* magazines reflect the striking consistency that underscores the search for practicality.

No influx of volume appears likely to change the tough, low-margin business of BTS stationery and school supplies any time soon.

In this year's survey, pollsters queried 431 readers of *Better Homes & Gardens*. As a group, the respondents have slightly higher than average income, but most of the conclusions drawn from the studies are based on comparisons with previous surveys of people with about the same earnings. More than 84% of those surveyed have attended college, but the percentage was similar in previous years. As usual, nearly 90% are homeowners. Only households with school-age children are included in the polls.

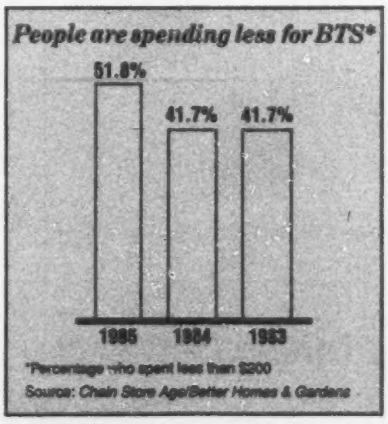
And when the numbers are digested, the message that emerges for stationery merchants is clear: more of the same.

Stationery netted a little less than 11% of BTS in 1985, up just slightly from last year, but still behind the 12.4% share of 1983.

Apparel remains the most important BTS category, accounting for 57.2% of sales last year. In both 1983 and 1984, apparel was 56% of BTS.

Shoes are still the second place merchandise in BTS sales, with 19.5% of volume last year, compared with 19% the year before and 21.2% in 1983.

Consistency in share is remarkable for a survey in which consumers are asked to estimate percentage. The flat figures indicate parents know what they want in BTS. Fashion would have little influence on their decisions.



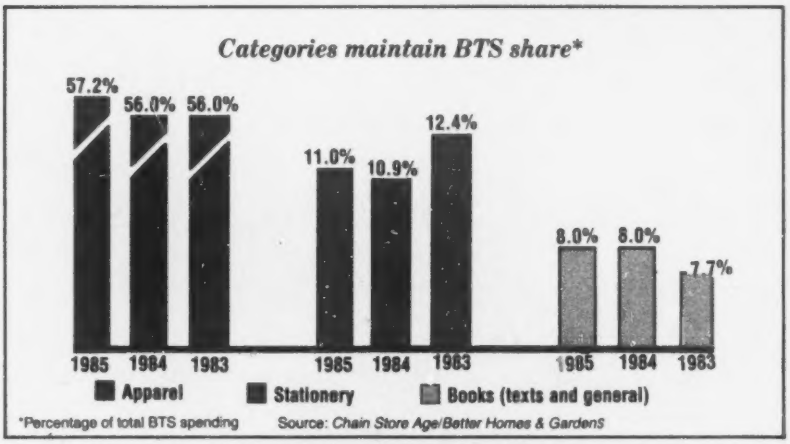
Perhaps the survey's strongest indication of how practical the consumer is about BTS shopping comes in the comparison of two trends.

One of the trends is the flatness in the portion of BTS spending parents say they have devoted to textbooks, 6.4% in 1985, compared with 6.3% in 1984. Alone, the figures seem reasonable. With negligible inflation, the cost of textbooks should have remained about the same.

However, there is the matter of the second trend. Survey respondents estimate they spent much more money for BTS in 1984 than last year. The average estimate of total expenditures is pegged in the polls at $236 for last year and $307 for 1984.

That means that the average consumer in the poll says she spent $15.10 last year and $19.40 the year before for textbooks.

Did the cost of textbooks go down? No. The point is that customers are so rigid in their perceptions of where BTS money goes, that they



do not change their ideas of category share even when they spend less in total.

The amount of the decrease probably is exaggerated by the perceptions of the people polled. When inflation is low, but spending is still soft, consumers tend to underestimate their expenditures. Moreover, during times of modest inflation, consumers become comfortable with the amount they spend and are less likely to overstate expenses.

But even if the drop in spending is inflated in the survey, a drop did occur and figures from the poll point to relationships that hold true.

The numbers show that customers in moderate- and high-income groups are all spending less for BTS goods. The biggest decline was among those with the most to spend. Respondents with incomes of $50,000 or more say they spent an average of $295 last year, just $59 above the mean for everyone surveyed. In 1984, the well-heeled customers averaged $457 in purchases, $150 more than the average for all consumers included that year.

In 1985, the affluent were as likely as those with moderate incomes to cap their BTS expenditures below $200.

The reluctance of the relatively wealthy to spend more was a break from the past. In 1984, for example, people with incomes above $50,000 were much less likely to hold down BTS spending than were their less affluent neighbors.

Perceptions of dramatically lower BTS spending ran the gamut of incomes, in 1985, however. The number of households unwilling to part with more than $200 ballooned to nearly 52% last year, up from about 41% in 1984 and 1983.

No increase occurred at the high end to offset the swollen ranks of customers who are spending less. Fewer than 3% spent $700 or more last year, down from 9% the year before. □

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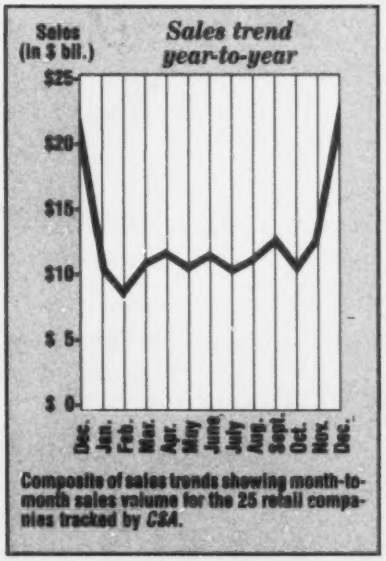
Lean Santa to bring plump profits

Santa brought uneven sales performance to the nation's major retailers this Christmas, but leaner inventories going into the holiday selling season should result in healthy profits when fourth quarter totals are tallied.

The 26 chains tracked by *Chain Store Age* posted a 7.4% sales increase over last December. The clear winners were department and specialty stores, which averaged 7% to 9% increases. Faring less well were Montgomery Ward, which reported sales off from last Christmas, and both Sears and K mart, where volume remained flat.



Composite of sales trends showing month-to-month sales volume for the 25 retail companies tracked by *CSA*.

For K mart, the fourth quarter profit picture remains potentially bright despite lackluster sales, since the period will be compared to last year's final quarter where a near uncontrolled blitz to clear dated merchandise ate heavily into profits.

At Wal-Mart, Christmas brought a 32.4% sales increase with comparable store results up 8%. According to the Bentonville, Ark.-based retailer, promotions this year ran about even with last year, but leaner inventories should reduce clearances in the final month of the fiscal year.

Toys "R" Us, citing the lack of a new Trivial Pursuit fad and shortages for some of this year's hot products such as Teddy Ruxpin and Pound Puppies, reported sales for December rising 13.8% over last year but same-store results gaining a more modest 2.8%.

Radio Shack operator Tandy continued on the upswing in December, posting double-digit sales gains for its U.S. operations. Adding to the good news at Radio Shack was a smaller than usual merchandise return rate in the week following Christmas.

St. Louis-based Edison Bros. bucked its own trend in December and posted an 11.6% sales gain, its largest monthly increase of the year. For the 52-week period ended Dec. 29, the operator of shoe stores and men's and women's apparel outlets recorded sales up 2.8%.

Sales gains modest

Major chains	% change	Dec. Sales* 1985	Dec. Sales* 1984	Stores 1985	Stores 1984	11-mo. sales* 1985	11-mo. sales* 1984	% change
Sears[1,4]	+ 1.0	3,307,900	3,274,590	799	798	23,821,700	23,705,900	+ 0.5
Penney[2]	+ 8.0	2,426,000	2,245,000	1,979	2,014	12,993,000	12,703,000	+ 2.3
Ward[1,5]	– 0.4	680,811	683,580	314	322	4,129,683	4,220,873	– 2.2
Federated[1,5]	+ 0.3	1,423,000	1,418,500	485	451	7,698,100	7,296,300	+ 5.5
Dayton Hudson	+ 5.6	1,551,900	1,468,900	1,211	1,149	8,091,500	7,128,700	+ 13.5
May Dept. Stores	+ 4.2	896,800	860,500	2,054	1,839	4,850,000	4,440,000	+ 9.2
R. H. Macy	+ 5.0	858,600	817,700	95	92	4,268,300	4,016,600	+ 6.7
Allied Stores	+ 3.2	760,800	736,900	346	333	4,098,000	3,750,000	+ 9.3
Carter Hawley Hale[4]	+ 0.9	707,000	701,000	299	268	3,754,300	3,463,000	+ 8.4
Associated Dry Goods	+ 3.2	760,800	736,900	346	333	4,098,000	3,750,000	+ 9.3
Mercantile	+ 15.7	331,028	286,067	80	79	1,779,349	1,614,801	+ 10.0
K mart[1,3]	+ 0.0	3,587,420	3,585,604	2,180	2,174	21,168,552	19,584,904	+ 8.0
Woolworth	+ 7.3	1,014,000	946,000	N/A	N/A	5,649,000	5,396,500	+ 4.7
Wal-Mart	+ 32.0	1,242,000	938,000	851	752	7,844,000	5,976,000	+ 31.0
Zayre[2]	+ 35.2	651,406	481,769	960	848	3,620,855	2,978,259	+ 21.6
Bradlees	+ 20.0	333,000	278,000	158	132	1,537,000	1,325,000	+ 16.0
Rose's	+ 5.5	163,565	154,946	204	195	959,606	876,238	+ 9.5
Ames	+ 110.0	288,900	137,000	450	385	1,423,100	776,000	+ 83.0
Jamesway	+ 9.0	93,695	85,921	91	85	500,953	448,801	+ 11.6
Heck's	+ 38.3	83,900	60,600	165	126	501,400	442,100	+ 13.4
Melville[1]	+ 17.3	813,124	693,339	5,575	5,293	4,547,125	4,191,262	+ 8.4
Tandy	+ 22.0	509,004	417,710	N/A	N/A	2,878,451	2,540,402	+ 13.3
Edison Bros.	+ 11.6	121,300	108,700	N/A	N/A	746,300	721,400	+ 3.4
The Gap	+ 42.3	142,900	100,400	680	627	628,400	495,600	+ 26.8
Circuit City	+ 38.0	144,100	104,600	113	N/A	627,500	469,800	+ 33.6
Totals & Averages	7.4	22,873,553	21,293,936	—	—	130,522,111	120,974,265	+ 7.8

*000 omitted. N.C. = no change. N/A = not available.
[1]Store number for full-line outlets only. [2]Includes 337 Zayre stores (vs. 290 a year ago), 432 Hit or Miss (vs. 402) and 191 T. J. Maxx stores (vs. 156). [3]Excludes supermarket sales. [4]Includes results from Sears Canada. [5]Store count is for K mart stores only. [6]Continuing operations only. [7]Domestics operations only.

Salomon Bros. rates retailers overrated

Citing a bull market which had run the price of a number of stocks above their investment worth, Salomon Bros. started the year with a vote of no confidence in retailing issues. Of the 10 common stocks listed on its sell list for 1986, the investment firm named three retailers and one diversified corporation with strong retailing ties.

Mentioned by Salomon Bros. were Dayton Hudson, J. C. Penney and Carter Hawley Hale. Also listed was General Cinema, which maintains an interest in Carter Hawley Hale as a result of the Los Angeles-based retailer's successful takeover defense in 1984.

Retailing stocks have had an on-again, off-again relationship with Wall Street in recent years, but the Salomon Bros. sell suggestion is significant because of its potential influence on institutional investors. There is one note of hope for the retailers, however. Also named on the sell list was Boeing, which in 1985 turned in the best year in its history.